

City of San Diego

AUDIT REPORT

***SOUTHEASTERN ECONOMIC
DEVELOPMENT CORPORTATON***

***PERFORMANCE AUDIT OF
OPERATIONS***

September 10, 2008

**Office of the City Auditor
Eduardo Luna, CIA, CGFM, City Auditor**

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THE CITY OF SAN DIEGO

September 10, 2008

Honorable Mayor and Members
of the City Council
202 C Street
San Diego, CA 92101

Enclosed is a report on the Southeastern Economic Development Corporation (SEDC) Performance Audit of Operations conducted by Macias Consulting Group. The report contains significant audit findings and includes 33 recommendations for improving SEDC's operations and strengthening City oversight. SEDC's and City management's written responses are attached to the report after Appendix 4 starting on page 93. Macias Consulting will provide a response to SEDC's response under separate cover.

This report will be presented to the Audit Committee at its September 15, 2008 meeting. Please contact me if you need any additional information.

Respectfully submitted,

Eduardo Luna
City Auditor

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Jay M. Goldstone, Chief Operating Officer
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MACIAS GINI & O'CONNELL LLP

Southeastern Economic Development
Corporation

Performance Audit of Operations



**FINAL REPORT
PRESENTED TO
THE CITY OF SAN DIEGO
CITY AUDITOR'S OFFICE**

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Date: September 8, 2008

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RESULTS IN BRIEF

Why the Review was Conducted

At the request of the City of San Diego Audit Committee, Macias Consulting Group (MCG) conducted a performance audit of the Southeastern Economic Development Corporation (SEDC) to evaluate the efficiency and effectiveness of SEDC during fiscal years (FYs) 2004-05 through 2006-07. Specifically, MCG sought to assess activities related to organizational structure, staffing, budgeting and internal controls, reporting, agency expenditures, redevelopment, project management, communications, and real estate acquisitions.

Approach

MCG used a number of data collection and evaluation techniques to conduct this performance audit. MCG reviewed documents made available on the SEDC website, conducted on-site file reviews, including project files, budget documents, contracts and real estate acquisition files. MCG also conducted interviews with all SEDC staff, six members of SEDC's Board of Directors, members of the Development Community who agreed to speak to us, and City officials to obtain information related to SEDC operations. We also addressed how members of the general community were able to provide feedback on proposed projects and how those comments were conveyed to members of SEDC's Board of Directors. Other evaluation techniques included making comparisons of SEDC operations to best practices, industry standards, and California Redevelopment Act (CRA) requirements to determine strengths and areas in need of improvement at SEDC as well as conducting internal audits of SEDC compensation practices.

What We Found

- We assessed SEDC's budgeting practices against Community Redevelopment Act (CRA), and the Government Finance Officers Association (GFOA) budgeting practices, and the City's requirements. These practices provide general guidance for what information should be presented within the budget and do not dictate specific presentation criteria or the criteria for communicating the detailed information to key stakeholders. While SEDC generally meets CRA, GFOA and the City's budgeting requirements, we found SEDC does not have a comprehensive budget policy to govern its budget process. The information that was presented by SEDC as its policy was a budget manual on how to prepare the FY 1999-00 budget.
- SEDC does not have policies that would restrict the types of agency expenditures and reimbursements, and thus, SEDC incurred expenditures that would not be appropriate for a public agency, such as expenditures for staff holiday luncheons and membership dues to clubs. Auto allowance increases and vacation and sick leave buy-outs for the SEDC President were also inappropriately approved by the SEDC Director of Finance.

- The most significant weakness at SEDC pertains to how SEDC presents budget information on employee compensation to its Board of Directors and the City. SEDC was able to hide significant salary compensation adjustments, such as cost of living adjustments and merit pay for staff in its annual budget that were unknowingly approved by the SEDC Board of Directors and the City. For other forms of supplemental compensation increases, such as acknowledgement pay, longevity pay, and incentive pay, the anticipated increases were not shown in the budget detail. The budget detail provides the support documentation for the amounts requested in the Agency's annual budget. Salary savings from vacant positions were used to pay for the compensation increases. Without specific disclosure to the SEDC Board of Directors and the City, SEDC was able to provide its employees with compensation that exceeded the maximum salary limits established for their positions in the some of the years that we reviewed. When the City denied salary increases in FY 2006-07, the denial was circumvented by SEDC and employees were given salary increases anyway. Between FY 2003-04 and FY 2007-08, SEDC's President authorized a total of \$872,404 in supplemental compensation to SEDC employees and to herself. The Finance Director explained that no direct question regarding compensation was ever asked and that the one Board member who reviewed the budget detail did not question the anticipated expenditures. The compensation practices would have been difficult to identify when key information was omitted in the budget detail. From a performance and internal auditing perspective, the compensation practices that we address in this report rise to level of fraud¹.
- Another weakness in SEDC's financial management is that SEDC is not reviewing and reconciling the direct payments it has requested for reimbursements from the City to ensure these payments were posted and accounted for accurately. By not reviewing and reconciling the direct payments, SEDC cannot assure that its budget-to-actual comparison is completely accurate and appropriately reflects the actual expenses that have occurred within each project budget and fund. Because SEDC explained that the City was reviewing the direct payments, SEDC had not performed a secondary control whereby it reconciled the direct payments to ensure that the payments were posted accurately and paid from the appropriate fund.
- Based on the selected contracts that we reviewed, SEDC uses consultants and other service providers for appropriate types of services consistent with permissible uses identified in SEDC's operating agreement with the City, its policies and procedures manual, and in literature on best practices for redevelopment agencies. Such uses included appraisals, engineering studies, marketability and feasibility studies, project improvement studies, and legal opinions. SEDC's consultant selection process, however, is not well-documented and this may contribute to community concerns about how SEDC selects and has used its consultants. Because the process is not well-documented, we could not definitely conclude on whether procurement process rules were administered effectively or circumvented especially since many procurements did not go through a Request for Proposal (RFP) process.

¹ Fraud is the intent to conceal or omit information that leads to the direct benefit of an individual or organization.

- We found that the goals contained in these redevelopment plans are consistent with the intent and scope of CRA. For example, the redevelopment plans and CRA include the need to eliminate blighting influences; strengthening existing and providing new residential areas; and strengthening existing and attracting new businesses. SEDC has monitored its progress at accomplishing its goals by reporting on key metrics such as bond issuances, tax increment receipts, and the number of persons employed. SEDC has experienced notable growth in these areas.
- SEDC conducts planning activities solely within each of its four project areas. Best practices, however, state that a redevelopment agency should have a strategic plan for its 'sphere of influence', which is the entire redevelopment area under a redevelopment corporation. When asked why SEDC does not have an agency-wide strategic plan, SEDC's management said the redevelopment and implementation plans for each project area serve this function. Individual plans, however, cannot fulfill all of the functions of a comprehensive, organization-wide strategic plan. They do not, for example, identify common goals and challenges across the project areas nor do they prioritize these goals and implementation activities among these areas. This is important because SEDC has a finite amount of resources to accomplish its redevelopment goals. SEDC's lack of comprehensive strategic planning may partly explain why some city officials and developers said they were unsure and confused about what SEDC's overall goals and priorities are when evaluating specific SEDC supported projects and activities.
- Although SEDC does have a project management process that staff appear to follow, it does not have comprehensive, documented project management policies and procedures that could facilitate project management by agency staff. In lieu of a comprehensive policy, SEDC staff said that they primarily rely on the President's direction when managing projects. Best practices dictate, however, that project management consist of comprehensive, documented standard procedures, covering the entire project management cycle -- from project planning through project closure or evaluation.
- The SEDC Board of Directors had more than one-third of its meetings cancelled during our audit period because of the lack of a quorum or from a decision by the SEDC President that the meetings were unnecessary given the absence of matters needing Board action. Cancellation of the Board meetings reduces the number of opportunities for SEDC management to communicate with the Board and vice versa.
- SEDC does not generally follow accepted practices by incorporating community feedback into its formal staff reports to the Board; and, other than meeting regularly with the staff of one Council member, we found no data to suggest that SEDC executive management, on an individual basis, met with all of the members of the City Council/Redevelopment Agency Board.
- SEDC generally complied with both CRA and its own processes in its acquisitions of real estate assets within the project area. However, improvements in the processes were also identified that would provide transparency to SEDC's processes. Specifically, SEDC could ensure that decisions and events are properly documented and communicated to

their Board of Directors and to the City, thus providing transparency to SEDC's processes.

This circumstances for the issues that we identified stem from some controls that were not in place and others that were not working properly, the circumvention of controls, and the lack of effective oversight by the SEDC Board of Directors (although SEDC reduced the Board's ability to perform proper oversight). Despite notable initiatives accomplished in the redevelopment area, SEDC needs governance, organizational and operating changes as outlined in the 33 recommendations contained in this report.

BACKGROUND

According to the California Redevelopment Association, redevelopment is an effective way to address deteriorated areas and improve social, physical, environmental or economic conditions -- conditions that may prevent private enterprise from investing in blighted communities without public private partnerships. The California Redevelopment Association believes that through redevelopment, a project area will receive focused attention and financial investment to reverse deteriorating trends, create jobs, revitalize the business climate, rehabilitate and add to the housing stock and gain active participation and investment by citizens which would not otherwise occur.

The City of San Diego established its redevelopment agency (RDA) in 1958 and the RDA is a separate legal entity from the City. Although it is a separate legal entity, the San Diego City Council also serves as the RDA's governing body. The Mayor serves as the Executive Director of the RDA; the Director of the City Planning and Community Investment Business Group serves as the RDA Assistant Executive Director; and the head of the City Redevelopment Agency (part of the City Planning and Community Investment Business Group) as the Deputy Executive Director of the RDA.

The RDA has divided responsibility for management of its 17 redevelopment areas among three separate entities: the City's Redevelopment Agency, SEDC, and the Center City Development Corporation (CCDC). The City's Redevelopment Agency, which is within the City Planning and Community Investment Department, is responsible for 11 project areas. SEDC is responsible for four project areas, and the CCDC is responsible for two project areas. In addition to general management of redevelopment project areas, the City Redevelopment Agency is also responsible for compiling a comprehensive redevelopment agency budget for all three entities; preparation of required State reports on redevelopment activities; maintenance of the Redevelopment Agency's official records; and when directed, coordination of redevelopment activities among the three entities.

The Southeastern Development Corporation (SEDC) is a public benefit, non-profit corporation that the City of San Diego established in 1981. It is governed by a nine-member Board of Directors consisting of a Chair, a Vice Chair, a Secretary and six general members. The Mayor and the City Council appoint each Board member and each member serves a staggered three - year term. The Board holds monthly meetings with SEDC which are open to the public. An operating agreement with the City of San Diego specifies the role and responsibilities of SEDC, addressing, among other things, governance, financial management, and procurement.

SEDC is responsible for all redevelopment activities within its 'sphere of influence', which is a 7.2-square-mile area immediately east of downtown San Diego. This area covers 15 neighborhoods within four adopted redevelopment projects areas and one study area. The project areas are Central Imperial (adopted 1992), Gateway Center West (adopted 1976), Mount Hope (adopted 1982) and Southcrest (adopted 1986) and within these areas redevelopment takes place. SEDC and the City redevelopment agency are to eventually determine whether or not to formally designate the Dells Imperial area as a redevelopment project area. If designated a

redevelopment project area, redevelopment funds, or tax increment, may be used for a wide range of activities within the project area to eliminate blight and encourage development. Tax increment is based on the current assessed value of the property within the newly established project area, which is called the base year value. Tax increment comes from the increased assessed value of property as the area is redeveloped. Any increases in property value will increase tax revenue generated by the property. This increase in tax revenue is the tax increment that goes to the County, which is then redistributed to the City.

There were two prior assessments of redevelopment in the City of San Diego, one that focused specifically on SEDC² and another examining the City's Redevelopment Agency³. The first, completed in 2007, examined the extent to which SEDC has accomplished the goals set forth in its redevelopment and implementation plans. The report concluded that SEDC is meeting many of these goals as stated in the redevelopment plans. This review was performed by the consultant who is also under contract with the City Redevelopment Agency to assist SEDC with preparation of its redevelopment plan, and has provided other services – such as financial analysis – to SEDC in recent years. The report made six recommendations:

- (1) Undertake efforts to provide more affordable housing to help the redevelopment agency address shortages.
- (2) Hire more project management staff, especially to monitor its affordable housing activities.
- (3) Continue efforts to assist in development of new commercial facilities that lead to new housing and employment opportunities in the Southcrest project area;
- (4) Improve existing industrial areas and develop underutilized parcels in Gateway Center West project area.
- (5) Assist in development of in-fill housing within the Mount Hope project area.
- (6) Establish a minimum threshold for reviewing proposed developments requiring Agency assistance (such as creation of a standardized form) to help SEDC assess developer readiness.

The second assessment examined redevelopment practices for the City's Redevelopment Agency and was completed in 2006. Based on its review of two project areas that were not administered by SEDC, this review concluded that the City Redevelopment Agency was performing its basic function well but identified areas of weakness in public outreach and internal agency management and efficiency. In particular, the review concluded that the City's "failure to clearly tie selected projects to identified goals underscores the public uncertainty" about its project selection. Recommendations included:

1. Prioritizing goals and tying selected projects to identified goals and priorities; conducting more public outreach and disseminating more information about redevelopment in general and its activities.
2. Providing more training opportunities for leadership and staff; improving its management practices by learning from past successes and failures; creating a centralized record-

² Keyser Marston Associates, Inc, Redevelopment Performance Review: Southeastern Economic Development Corporation, August 2007.

³ Clarion/Waronzof, Focused Study of Redevelopment Practices: Task 3: Best Management Practices & Recommendations for Action, San Diego, California, March 2006.

keeping system; creating a project reporting system to “evaluate whether on-going and completed projects achieve their stated objectives and estimated impacts over time.”

3. Developing project management and outcome-related performance measures, and improving communication and coordination with other City Departments.

It also identified best practices for project management using similar sources to those used for this audit. Finally, we reviewed documented redevelopment practices in other cities and highlighted successful and innovative practices in those cities.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives for this review were to assess the performance of SEDC. Specifically, MCG was to: (1) evaluate the efficiency and effectiveness of the organization and determine if organizational goals are being achieved, and (2) review SEDC’s budgeting procedures and practices. Within these two broad objectives, we completed eight specific audit requirements:

- Evaluate and determine if SEDC has sound budgeting practices and procedures and determine if their budgeting procedures provide adequate information to the Mayor and City Council, including the extent to which SEDC’s salary and non-salary compensation programs including benefit programs, were used over the last five fiscal years to compensate employees, and communicated to the Board, RDA and to the public.
- Evaluate and determine if SEDC has effective and efficient financial management internal controls.
- Determine the efficiency and effectiveness of SEDC’s use of staff resources and consultants to achieve the organizational goals.
- Based on best practices, industry standards for a redevelopment agency, and SEDC’s operating agreement with the Redevelopment Agency, as well as input from the development community and the City’s Planning and Development Services Departments, evaluate the adequacy and appropriateness of the organization’s goals and performance measures used, and the efficiency and effectiveness of the methods (including communication practices), procedures, and activities used to accomplish those goals.
- Determine the efficiency and effectiveness of SEDC’s project management procedures for redevelopment projects and properties.
- Evaluate and determine if the level of information provided by SEDC management to its Board members is adequate and in compliance with Board rules and regulations.
- Assess to what extent SEDC is achieving its operational goals.
- Determine if SEDC is following sound procurement practices in compliance with pertinent requirements of the State of California Health and Safety Code related to the purchase of real estate.

In July 2008, the City requested MCG to perform additional work in the areas below that include:

- Review the complete listing of the SEDC vendor file including amounts paid to each vendor during FY 2007-08. On a test basis, assess the legitimacy of vendor expenses for FY 2007-08, which would include a review of a sample of expenses for proper Board approval, signature requirements, and compliance with the operating agreement.
- Review all checks issued to employees for non-payroll services or an expenditure reimbursement for FY 2007-08 for legitimacy and compliance with the operating agreement.
- Review the detailed transaction listing for FY 2007-08 for all accounts contained in the monthly expenditure reimbursement reports submitted by SEDC to the Redevelopment Agency for legitimacy and compliance with the operating agreement. This should include an analysis of SEDC expenditure accounts for the FY 2007-08, specifically addressing the legitimacy of the expenses within the following expenditure line items:
 - Auto
 - Miscellaneous expenses
 - Director fees
 - Travel
 - Tuition reimbursement
- Review the documentation relating to conflict of interest provisions in the operating agreement between the Redevelopment Agency and SEDC and determine if, based on all documentation reviewed, any conflict of interest exists with regard to any expenses paid by SEDC.
- On a sample basis, verify a listing of SEDC computer, technology, and electronic equipment to assets on hand.

Scope

MCG examined the operations of the SEDC for the period FYs 2004-05 to 2006-07, including preparation of the FY 2007-08 SEDC budget procedures. SEDC activities and operations outside this time period were not reviewed, except for the additional work that was performed at the request of the City which included the 2007-08 fiscal year.

MCG focused its review on the scope of work requested by the City's Internal Auditor. As a result, the requested scope of work did not include: (1) assessing SEDC Board compliance with the Brown Act -- the state law that requires local legislative bodies hold their meetings in open forum (Government Code 54950); (2) determining how federal funds were spent on project areas, (3) compliance to state and federal personnel requirements, and (4) financial audits of specific project areas. Finally, MCG did not examine the level of SEDC's communication with the public and interactions of community advisory groups (including PACs), although in our evaluation of SEDC's procurement, project management procedures and general management of SEDC, we addressed communication because this was a concern raised by participants of this review. We discuss the SEDC activities related to communications with the key stakeholders.

Best practices for government and redevelopment agencies that were utilized for this review included:

- California Redevelopment Association
- California Redevelopment Act

- California Debt Advisory Commission
- U.S. Government Accountability Office
- Government Performance and Results Act (GPRA)
- Government Finance Officer's Association (GFOA)

Best practices for non-profit organizations were not specifically used for comparison purposes for this review because even though SEDC is, legally, a nonprofit corporation, it serves as an agency of the City Redevelopment Agency, ultimately reporting to the City Council. As such, SEDC, given its mission and role to oversee project areas, should fundamentally operate in a manner consistent with California redevelopment agencies.

Methodology

The methodology for the SEDC performance audit included:

- Analyzing SEDC's policies and procedures, including as they relate to its Board of Directors, use of consultants, acquisition of land, and the preparation and communication of its budget.
- Analyzing SEDC information and data on consultants, employee salaries, SEDC's organizational structure, budget, minutes and staff reports from SEDC Board of Directors meetings, and internal controls.
- Examining SEDC plans and reports which describe this agency's redevelopment goals and strategies for achieving these goals. Examples include Redevelopment Plans, Five-Year Implementation Plans, and Annual Project and Development Work Plans.
- Conducting interviews with the City's Financial Management Department, RDA, City Planning and Community Development officials, SEDC management and staff and the development community.

The first task was to determine if SEDC has effective budgeting practices, and to assess the adequacy of the information presented, we interviewed City RDA and Finance officials regarding the guidance provided to SEDC during the budget process. To assess alignment with this guidance, we reviewed SEDC budgeting practices and procedures, including budget preparation documents. We also compared SEDC budgeting practices to industry best practices, the operating agreement with the City and budgeting requirements of the CRL. Additionally, to determine the extent to which SEDC's salary and non-salary compensation, including benefit programs, were used over the last five fiscal years, MCG obtained the payroll registers for the last five fiscal years, and summarized each employee's salary and non-salary compensation for individual pay periods. We also interviewed the President, Director of Finance and members of the SEDC Board of Directors to determine the communication and approval for the salary and non-salary compensation. Interviews with the President and Director of Finance also included questions surrounding the reporting of the non-salary compensation and the budget methodology for SEDC's employee compensation. Lastly, MCG reviewed the President's employment contract, employee job description and SEDC's employee handbook in an effort to determine the criteria for receiving the non-salary compensation, if any existed, and additionally whether these benefits were formally defined within these documents.

To evaluate the adequacy and appropriateness of the organization's goals and performance measures, MCG completed the following tasks:

- Interviewed SEDC managers and staff to identify organizational goals and performance measures and how these are documented.
- Reviewed SEDC redevelopment and implementation plans to identify organizational goals and performance measures.
- Reviewed publications by the California Redevelopment Association, California Redevelopment Act, California Debt Advisory Commission, US GAO, and GPRA (Government Performance and Results Act) to identify appropriate goals for redevelopment agencies and criteria for setting goals and performance measures.
- Interviewed managers and staff within the City of San Diego Planning and Community Investment Business Group (including the Departments of Development Services and Planning).
- Interviewed members of the development community to document their familiarity with SEDC goals and obtain their assessment of the adequacy and appropriateness of these goals. We defined developers as those who had formal development agreements during the audit period with the RDA within the four redevelopment project areas for which SEDC is responsible. There were ten such developers and MCG interviewed six of them. Of the remaining four, three declined to participate and one could not be reached.
- Contacted six consultants and area contractors who have contacted SEDC for potential business opportunities but did not continue with SEDC's procurement processes. All six consultants declined to participate or did not respond to our requests for information.

To evaluate the efficiency and effectiveness of the methods (including communication practices), procedures, and activities used to accomplish those goals, MCG assessed SEDC's strategic planning process and compared it to industry standards, best practices, requirements of state law, and expectations of the City Community Investment and Planning Division and members of the development community. To accomplish this, MCG conducted the following tasks:

- Documented current industry best practices for redevelopment agency planning and management by reviewing standards set by the California Redevelopment Association, California Redevelopment Act, California Debt Advisory Commission, US GAO, and GPRA.
- Interviewed managers and staff within the City of San Diego Planning and Community Investment Business Group (including the Departments of Development Services and Planning) and six members of the development and consultant community. The purpose of all of these interviews was to determine the extent to which stakeholders find SEDC methods of achieving goals efficient and effective, and covered the issues of communication and procurement. The six firms we contacted that had unsuccessfully sold services to SEDC either did not agree to speak to us or failed to respond to our requests.
- Reviewed SEDC operating agreements with the City for planning requirements.
- Interviewed SEDC managers and staff to document SEDC's planning process and to determine how often managers and staff report progress toward goal accomplishment to the SEDC Board of Directors, the RDA, and other stakeholders (e.g., city managers and staff within the Departments of Development Services and Planning and members of the development community).

- Compared planning processes to best practices and input obtained from city managers and members of the development community to determine areas in need of improvement.

To evaluate and determine the efficiency and effectiveness of SEDC's use of staff resources and consultants to achieve the organizational goals, MCG reviewed SEDC's organizational charts and staff position descriptions as well as the budget for staff allocations. Interviews were then held with the SEDC project coordinators and other SEDC staff to determine current workloads. An assessment was then made of current staff mixes and workloads.

To evaluate and determine the extent to which SEDC is achieving its operational goals, we reviewed annual work plans, the operating agreement and project status reports. MCG interviewed the SEDC President, Director of Finance, Communications Manager and staff on roles, responsibilities and achievement of goals.

MCG then evaluated the efficiency and effectiveness of SEDC's project management procedures for redevelopment projects and properties. MCG reviewed California Redevelopment Act general requirements for project management processes specific to redevelopment and best practices for general project management. MCG reviewed internal staff reports that track project milestones and accomplishments, and identified the types of activities that SEDC project coordinators perform based on the work plans. MCG assessed stakeholder satisfaction with the project management process and assessed weaknesses in the process to determine the extent to which the process affects SEDC's abilities to achieve its goals.

To determine if SEDC was following sound real estate procurement practices, we compared SEDC's practices with documentation of its acquisition process prepared as part of the review for the Kroll Report⁴. MCG examined documentation in SEDC files for the single real estate transaction that occurred during the audit period. We also interviewed the SEDC President to review the acquisition process and document her role and the role played by consultants, as well as the City accounting division to obtain documentation of payments related to the single acquisition during the audit period.

To evaluate and determine if the level of information that SEDC management provides to its Board of Directors is adequate and in compliance with board rules and regulations, MCG:

- Reviewed State law, requirements in SEDC's operating agreement, Board amendments and by-laws, and SEDC Policies and Procedures Manual. Using these sources, we identified the types of information that SEDC management is required to provide to its Board and frequency of reporting.
- Reviewed agendas and minutes from the 23 SEDC Board meetings during the FYs 2004-05 to 2006-07 to assess compliance with these requirements.
- Interviewed six of the nine SEDC Board members to obtain their perspectives on the adequacy of information that SEDC management provided to the Board. We interviewed the Chair, Vice Chair, and Chair of the Subcommittee on Projects and Development, general Board members, and members of the Personnel and Budget Subcommittee, and

⁴In general, the Kroll Report contained the results of a review of the San Diego City's Employee Retirement System and the City of San Diego Sewer Rate Structure.

the Intergovernmental Affairs Subcommittee. The remaining three Board members did not respond to our meeting requests.

To evaluate and determine if SEDC has adequate internal controls over financial management, MCG then interviewed SEDC and City officials to document current practices and obtain documented policies and made recommendations for improvement. Finally, MCG examined specific transactions to determine the accuracy of the financial information submitted to the SEDC Board of Directors.

To review the complete listing of the SEDC vendor file including amounts paid to each vendor during FY 2007-08 and the detailed transaction listing for FY 2007-08 for all accounts, we obtained detailed general ledger and transaction reports and assessed on a test basis, the legitimacy of vendor, auto, miscellaneous, director fees, travel, and tuition reimbursement for FY 2007-08, proper board approval, and compliance with the operating agreement. In conjunction with our review of FY 2007-08 vendor listing, we reviewed the monthly reimbursements submitted by SEDC to the City and determined the reimbursements compliance to the operating agreement and general legitimacy.

To review checks issued to employees for non-payroll services or an expenditure reimbursement for FY 2007-08 for legitimacy and compliance with the operating agreement, MCG obtained the supporting documentation for each of the reimbursements made to employees and reviewed for signature approval, supporting documentation, and compliance with SEDC policies and procedures. MCG then summarized the types of expenditures reimbursed for each employee.

To review the documentation relating to conflict of interest provisions in the Operating Agreement between the Redevelopment Agency and SEDC and determine if, based on all documentation reviewed, any conflict of interest exists with regard to any expenses paid by SEDC, MCG reviewed employee salary and non-salary reimbursements, employee non-payroll reimbursements, expenditures within the vendor listing and interviewed the President and Director of Finance.

To verify a listing of SEDC computer, technology, and electronic equipment to assets on hand, we requested a list of fixed assets for SEDC from the Finance Office. The Finance Office reported that it did not tag their fixed assets since most of them were leased. Thus, MCG could not perform a full review into their fixed assets. MCG did obtain a listing of capital assets and examined the existence of the equipment and whether the assets were properly safeguarded.

Finally, MCG assessed the controls within the financial system by reviewing user access logs, user access right listing and comparing them to the actual functions being performed by the financial staff. A determination of whether the access rights enabled staff to circumvent segregation of duties functions was also performed.

To present the results of the SEDC performance audit, we divided the report into three sections. The first section of this report covers the general operational and financial management of SEDC, such as governance, organization, budgeting, financial reporting, and internal controls; the second section of this report covers the “redevelopment” activities and operations, such as

strategic planning, project management, procurement, and communication; and the third section covers other issues that we noted during our review.

Our work was conducted between January 2, 2008, and August 6, 2008, in accordance with generally-accepted government auditing standards for performance audits. A draft report was provided to the Auditor's Office, the City, and to SEDC on August 28, 2008, and comments were incorporated into this report as appropriate. SEDC generally disagreed with the results of this report. Our review of the data that was submitted by SEDC for FY 2007-08 further validated that SEDC did not submit critical budget data to the City, and FY 2008-09 data was outside of our scope of review.

We want to thank the employees of SEDC for their assistance with this review. The Finance Department was also particularly cooperative in our efforts to gather needed documentation.

SECTION I: SEDC HAS WEAKNESSES IN INTERNAL CONTROLS

SECTION OVERVIEW

An effective system of internal controls minimizes an organization's financial, administrative and operational risks and provides reasonable, but not absolute, assurance that the organization is complying with applicable laws, statutes and rules to ensure that assets are properly safeguarded. Moreover, an effective system of internal controls should help encourage public confidence and trust in the organization by promoting properly-managed operations. Control weaknesses make it easy for an organization's staff to rationalize their mistakes, errors and inefficiencies. A properly designed, implemented, and continuously monitored system of internal controls protects an organization's assets and resources by reducing or eliminating opportunities for individuals to commit and conceal errors or fraudulent acts.

Throughout our review, we found that SEDC does not have policies that would restrict the types of agency expenditures and reimbursements, and thus, SEDC incurred expenditures that would not be appropriate for a public agency, such as expenditures for staff holiday luncheons and membership dues to clubs. Also, SEDC did not have policies that govern reimbursement of the food expenditures that were commonly incurred by SEDC employees.

The most significant weakness at SEDC pertains to how SEDC presents budget information on employee compensation to its Board of Directors and the City. The cost of living adjustments and merit pay were hidden within a line item that represented a "Sub-Total Positions and Salaries", which was higher than the total minimum and the total maximum salary requested for each position. Other forms of supplemental compensation, such as acknowledgement pay, longevity pay, and incentive pay were not shown in the budget detail that supports the Annual Budget presented to its Board of Directors and to the City. Remaining budget funds and salary savings from terminated employees and unfilled positions allowed SEDC to provide supplemental income increases. Consequently, SEDC employees were awarded significant amounts of compensation increases that had received no specific approval from the SEDC Board of Directors or from the City, and when the City denied salary increases in FY 2006-07, the denial was circumvented.

We found that SEDC lacks internal controls to ensure that day-to-day activities are conducted in a sound manner because SEDC's operating agreement provides the SEDC President with broad discretion over operations. To reduce the risk associated with the President's overarching authority within the Agency, secondary controls, such as Board of Director oversight, and other secondary controls designed to ensure the appropriateness and reasonableness of expenditures are imperative to ensuring soundness of day-to-day activities of the Agency. However, oversight by the SEDC Board of Directors was weakened by SEDC's repeated omission of critical budget information.

SEDC's Budget Process Can Benefit from Greater Transparency

We assessed SEDC's program budgeting processes against Community Redevelopment Act (CRA) and the corporate budgeting process against the Government Finance Officers Association (GFOA) budgeting practices and the City's requirements. These practices provide general guidance for what information should be presented within the budget and do not dictate specific presentation criteria or the criteria for communicating the detailed information to key stakeholders.

Specifically, we found that SEDCs program budgeting practices generally met CRA budget requirements. CRA does not provide requirements on the level of detail necessary in the budgets but it does require that budgets contain the following items:

- (a) the proposed expenditures of the agency,
- (b) the proposed indebtedness to be incurred by the agency,
- (c) the anticipated revenues of the agency,
- (d) the work program for the coming year, including goals, and
- (e) an examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program.

We determined that SEDC is preparing budgets that satisfy items (a), (b), and (c), but only partially satisfy items (d) and (e).

SEDC's partial compliance with item (d) is due to the fact that 'Work Program' is not presented by name, but items that would be defined as related to work programs are presented in the project area budget narratives. This information is included in each project area's description within the budget document. Subsequently, each fund within the project area is discussed, and a description of activities within each fund is presented. Specific goals for each project area are not explicitly stated in the fund description, but broad goals and objectives are presented in the Service Efforts and Accomplishments section.

Regarding item (e) the last requirement, an examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program, is only partially presented. For instance, in the budget summaries for each project area, quantifiable performance measures are not formally reported. Items such as jobs created, or façade improvements or number of homes are not explicitly presented within the budget to provide tracking of accomplishments. However, SEDC, for its FY 2004-05, 2005-06 and 2006-07 budgets, included a section on Service Efforts and Accomplishments which outlines program objectives and the accomplishments throughout the agency.

While not required, there is not a formal process in place to ensure that SEDC met the requirements of State law (CRA) for preparation of its budget and no formal review is conducted at the City Level. SEDC reported that its consultants will check the CRA and its contractors, such as Keyser Marston and Associates (KMA), would inform SEDC if there are changes in the law. The SEDC Director of Finance reported that they simply use the previous year's format of the budget that complies with how the City wants it presented.

When comparing SEDC's corporate budgeting processes to GFOA guidance, we found that the SEDC process generally met GFOA guidance. GFOA budgeting practices suggest that organizations develop a framework for improved state and local government budgeting that include four principles, comprising twelve elements to be incorporated in the budgeting process. SEDC generally has met these principles with a few exceptions. These four principles include:

1. Establishing broad goals to guide decision making,
2. Developing approaches to achieve those goals, including establishing budget policies,
3. Developing a budget consistent with approaches to achieve goals,
4. Achieving good budget processes through monitoring and evaluating of budget performance and making adjustments as needed.

SEDC has broad goals that support its mission that are based on stakeholder needs and priorities, the community conditions, and current programs, which direct the organization in the allocation of resources in order to serve the needs of those stakeholders, and the community.

We found that SEDC budget practices are not completely aligned with the second principle, because the second principle includes a component that requires the adoption of budget policies. SEDC at the time of our review did not have a comprehensive budget policy. Instead, SEDC applies a budget manual that was prepared to guide the 2000 budget preparation.

Monitoring and evaluation of budget performance is another area where SEDC's budget practices do not completely meet GFOA guidance. SEDC's budgeting process includes a review of monthly budget reports that are reviewed by the President. Based on those reports, adjustments can be made through budget amendments. Transfers between the project budget items require that the Finance Unit document these adjustments through a budget amendment, or preparation of a 1472 form. When transfers between budget items are needed on the corporate budget, such as from personnel to non-personnel budget adjustments, approval is required from the City. SEDC has not had to transfer funds between these two accounts during our audit period. However, budget transfers between sub-accounts within these budget items are allowed and have occurred within our audit period. Transfers between sub-accounts do not require City or Board approval and can be done at the discretion of the President. We determined the President and Director of Finance had taken advantage of their ability to perform these unmonitored budget transfers between sub-accounts. Specifically, we noted that in FY 2006-07 the Director of Finance at the President's request transferred monies in excess of \$30,000 from various accounts into postage and promotions/special events to cover expenditures for SEDC's 25th anniversary party.

SEDC meets City budgeting requirements

We examined SEDC's budget practices for compliance with City requirements and found that SEDC meets most City budget parameters. Specifically, SEDC's budget presentation to the City of San Diego generally complies with all of the information requirements the City has imposed

during the time period of our review, FY 2004-05 to 2006-07. SEDC is solely responsible for preparing its own budget. Coincidentally, SEDC begins its budgeting process at the same time the City sends a memo to the agency outlining the deadlines for submitting all summarized data for cross-checking for public funds availability and publication of the City-wide budget. The summarized data consists of:

- Mission statement
- Agency description
- Agency expenditure
- Significant budget adjustment
- Reimbursement to the City of San Diego.

The City's CFO explained that the City did not have a role in the development of SEDC's annual budget. The request by the City for summary budget information was to publish this data in the City's annual budget in a format consistent with other City agencies. The agreement between the City and SEDC requires the submission of general budget data and does not ask for detailed information by project area. It is important to note that the City has not imposed restrictions on how the budget should be compiled by SEDC or whether detailed supporting information could be provided.

SEDC's budget contains two parts: corporate and project budgets. The corporate budget includes non-personnel expenditures and personnel (salaries and benefits) expenditures. The project budget pertains to each of the four redevelopment project areas and contains the expenses directly related to the redevelopment and economic development activities in these areas. This includes tax sharing and debt issuance, administration overhead, government services, consultants, and site acquisitions. Once completed, SEDC reported that it first presents its budget to its Budget and Personnel Board Sub-Committee for their review and input and then sends it to the entire SEDC Board of Directors. However, we were informed that no formal meetings of the Budget and Personnel Board Sub-Committee were held in FY 2006-07. Instead, in FY 2007-08, a budget workshop was held with all the Board Members.

SEDC does not present information that shows change in budgeted revenues to actual expenditures from year-to-year. Instead, SEDC shows budget variances between the prior year and the current year. This is not as useful because it does not reflect changes that occurred in the operations of the agency or how well the agency lived within its means. Additionally, the budget versus actual is not presented by project area, nor does it include the last five years of data by project area. We note that presenting budgets by project area is particularly challenging, especially over three years because projects can change and year-to-year data shows revenue carryovers (fund balances), which can occur for projects that have a life span of multiple years.

SEDC presents its budget to its Board of Directors without a great level of detail on specific expenditure and compensation information. For example, for the FY 2008-09 budget presentation to its Board, SEDC provided a one-page hand-out showing key types of revenues and expenditures, such as transferred monies, interest, and construction costs. Although some Board members are on record requesting additional budget information, SEDC did not directly provide the information to them unless the Board members asked specific questions. SEDC also made available to a Board member its budget detail for review. The budget details provides the

supporting documentation which shows the basis for each budget line item, including the current and historical budget schedules. This information would be significantly more useful to the Board and to the City during the budget review and approval process.

Budget and expenditures analysis
reveals no significant warning signs

Conducting a trend analysis of budgeted revenue and actual expenditures is one method that can be used to detect potential issues and/or warning signs of financial management practices. Such an analysis examines total revenue and total expenditures incurred to assess the overall change in the financial performance of an agency, the effectiveness of budget monitoring, and the discipline of the agency to control expenditures.

Our budget analysis, as shown in Tables 1.0 to 1.2, showed that SEDC was very successful at keeping total expenditures under budget for each of the three fiscal years that we examined. For example, for FY 2006-07, the total budget was \$1,923,900 and actual expenditures were \$1,851,616. Because the analysis suggested that SEDC was able to keep within its total budget, there was no information to suggest that mismanagement may be evident. We were not able to determine how well SEDC kept actual expenditures within its Project Budget estimates because the financial records that SEDC provided to us were not complete.

Table 1.0: SEDC Corporate Budget versus Actual Analysis, FY 2004-05

	FY 2004-05 Budget	FY 2004-05 Actuals	Variance
Salaries and Benefits	\$1,238,000	\$1,196,879	-3.32%
Rent and Leasehold Improvement	\$206,500	\$184,814	-10.50%
Furniture & Equipment	\$17,900	\$43,121	140.90%
Office supplies	\$130,300	\$107,010	-17.87%
Other contractual services	\$67,800	\$52,092	-23.17%
Legal and auditing services	\$39,100	\$34,035	-12.95%
Other expenditures	\$0	\$0	-
Advertising	\$27,100	\$27,698	2.21%
Printing and reproduction	\$47,100	\$38,118	-19.07%
Special events	\$11,800	\$7,360	-37.63%
Auto expenditure	\$10,900	\$9,425	-13.53%
Dues and seminars	\$16,600	\$10,184	-38.65%
Travel	\$15,500	\$9,666	-37.64%
Tuition reimbursement	\$6,900	\$1,937	-71.93%
Director fees	\$5,000	\$1,550	-69.00%
Insurance	\$2,000	\$0	-100.00%
TOTAL	\$1,842,500	\$1,723,889	-6.44%

Source of Data: MCG analysis.

Table 1.1: SEDC Corporate Budget versus Actuals, FY 2005-06

	FY 2005-06 Budget	FY 2005-06 Actuals	Variance
Salaries and Benefits	\$1,338,000	\$1,294,276	-3.27%
Rent and Lease-Hold improvements	\$189,000	\$187,956	-0.55%
Furniture & Equipment	\$50,200	\$49,839	-0.72%
Office supplies	\$130,200	\$142,607	9.53%
Other contractual services	\$57,000	\$58,374	2.41%
Legal and auditing services	\$45,500	\$53,360	17.27%
Other expenditure	\$0	\$29,135	-
Advertising	\$26,100	\$10,322	-60.45%
Printing and reproduction	\$50,000	\$62,482	24.96%
Special events	\$12,300	\$12,894	4.83%
Auto expenditure	\$11,300	\$10,530	-6.81%
Dues and seminars	\$15,500	\$8,051	-48.06%
Travel	\$21,500	\$3,282	-84.73%
Tuition reimbursement	\$6,800	\$912	-86.59%
Insurance	\$2,000	\$0	-100.00%
Director fees	\$6,400	\$1,650	-74.22%
TOTAL	\$1,961,800	\$1,925,670	-1.84%

Source of Data: MCG analysis.

Table 1.2: SEDC Corporate Budget versus Actuals, FY 2006-07

	FY 2006-07 Budget	FY 2006-07 Actuals	Variance
Salaries and Benefits	\$1,292,000	\$1,243,164	-3.78%
Rent and Lease-Hold Improvements	\$196,000	\$190,796	-2.66%
Furniture & Equipment	\$54,000	\$34,442	-36.22%
Office supplies	\$196,900	\$139,982	-28.91%
Other contractual services	\$0	\$66,638	-
Legal and auditing services	\$60,500	\$28,322	-53.19%
Other Expenses	\$0	\$6,643	-
Advertising	\$9,900	\$39,903	303.06%
Printing and reproduction	\$28,200	\$18,971	-32.73%
Special events	\$30,000	\$59,705	99.02%
Auto expenditure	\$10,900	\$11,383	4.43%
Dues and seminars	\$15,500	\$6,047	-60.99%
Travel	\$14,000	\$2,565	-81.68%
Tuition reimbursement	\$7,600	\$1,105	-85.46%
Insurance	\$2,000	\$0	-100.00%
Director fees	\$6,400	\$1,950	-69.53%
TOTAL	\$1,923,900	\$1,851,616	-3.76%

Source of Data: MCG analysis.

We conducted a three-year trend analysis of actual expenditures to determine if any substantial increases occurred. Generally, according to best practices expenditure changes of 10 percent or more would indicate some sort of substantial change to operations, or that budget monitoring practices were insufficient. The exact percentage variance depends upon the size of the organization. In this case, we applied 10 percent because of SEDC's relatively large size.

Our expenditure analysis, as illustrated in Table 1.3, showed that over a three-year period, SEDC exceeded increases of 10 percent or more for six of 16 accounts. For the most part, the value of the accounts was less than five percent of the total expenditures for the year, and immaterial to the analysis and thus, would not warrant further review. For the remaining ten accounts, SEDC was below a 10 percent threshold.

Table 1.3: SEDC Corporate Expenditure Trends

Operating Expenditures	FY 2004-05 Actual Expenditures	FY 2005-06 Actual Expenditures	FY 2006-07 Actual Expenditures	Change from FY 2004-05 to FY 2006-07
Salaries and Benefits	1,196,879	1,294,276	1,243,164	3.87%
Rent and Leasehold Improvements	184,814	187,956	190,796	3.24%
Furniture & Equipment	43,121	49,839	34,442	-20.13%
Office supplies	107,010	142,607	139,982	30.81%
Other contractual services	52,092	58,374	66,638	27.92%
Legal and auditing services	35,035	53,360	28,322	-19.16%
Other expenses	0	29,135	6,643	-
Advertising	27,698	10,322	39,903	44.06%
Printing and reproduction	38,118	62,482	18,971	-50.23%
Special events	7,360	12,894	59,705	711.21%
Auto expenditure	9,425	10,530	11,383	20.77%
Dues and seminars	10,184	8,051	6,047	-40.62%
Travel	9,666	3,282	2,565	-73.46%
Tuition reimbursement	1,937	912	1,105	-42.95%
Director fees (a)	1,550	1,650	1,950	25.81%
TOTALS	1,724,889	1,925,670	1,851,616	7.35%

Source of Data: MCG analysis of expenditure reports.

(a) Director fees: Monthly reimbursement to SEDC Board of Directors for meeting attendance.

Detail Examination of SEDC Expenditures Show Problems

Upon our further analysis of the detail on SEDC expenditures, we identified agency expenditures that should not have been reimbursed. The expenditures were for food purchased for activities, such as SEDC meetings, lunches and holiday parties. While the expenditures may be acceptable to some nonprofit organizations, they are inappropriate for organizations like SEDC which is primarily funded with public monies. Instead, employees should have used their own personal

resources for these types of activities. As shown in Table 2.0 below, SEDC incurred \$20,787 in FY 2007-08 in food expenditures.

Table 2.0: SEDC FY 2007-08 Food Expenditures

Restaurant	Amount
Cheese Shop	\$1,313
Chicken Shack Cater menu	\$214
Coffee Ambassador	\$3,086
El Pollo Grill	\$1,298
Fleming's Prime Steakhouse*	\$2,300
Huffman's BBQ	\$552
Juke Joint	\$116
Magnolias	\$2,802
Napa Valley Grille	\$1,409
Organic to Go	\$4,078
Phil's BBQ	\$1,069
Subway	\$196
Trevi	\$2,355
TOTAL	\$20,787

Source of Data: MCG analysis of expenditure reports.

* - Holiday Party Meal

Moreover, we traced \$156,680 in expenditures for a 25th SEDC Anniversary community event. The event was an appropriate activity that was held in August 2006, but expenditure for the event did not receive specific authorization by the SEDC Board of Directors. Because SEDC's policy requires specific Board approval of special events, we reviewed all of the Board agenda and minutes of the meetings between 2004 through 2008 and found no evidence of its discussion or approval although the SEDC President reported to us that specific approval was obtained. The SEDC Board Chair recalls that the event was discussed and he had received an invitation, but he does not recall any specific Board approval. Moreover, the event was not presented in SEDC's annual budget as a separate line item. Instead, SEDC funded the event through using available funds from its non-personnel budget and by transferring funds available between line items. For example, a memo to the SEDC President that was prepared by SEDC's Director of Finance stated he was able to find funding of \$30,000 in various accounts and had moved it to postage in an effort to secure funding for the party.

Although not at high levels, we identified other questionable expenditures by SEDC, as shown in Table 3.0. For example, SEDC spent \$3,000 at the Catfish Club. The Catfish Club provides a forum for discussion and conversation about urgent issues facing their neighbors. Membership for the Catfish Clubs runs \$1,000 for Corporate and \$400 for individuals. The corporate membership provides for two individuals. The SEDC President has a direct family relationship to the Club founder that appears to be a conflict of interest.

Additionally, we identified that SEDC was using its Reserve Account, which is typically a set-aside fund for budget shortfalls, for payment of expenditures. The financial reports that we examined did not provide sufficient detail as to the nature of the expenditures.

Table 3.0: SEDC FY 2007-08 Questionable Expenditures

	Amount
Bilick Retail Stores	\$102
Catfish Club	\$3,000
Costco	\$100
Heritage Day Festival and Parade	\$1,500
Imperial Fest	\$3,000
Reserve Account	\$4,000
TOTAL	\$11,702

Source of Data: MCG analysis of expenditure reports.

Our review of individual employee reimbursements totaled \$17,115 as shown in Table 4.0. Reimbursement for food was the most common expenditure. We could not determine the appropriateness of the reimbursements because SEDC does not have policies that govern food allowances. Because of the utilization of public funds for their reimbursement, food purchases should be kept to a minimum and policies should define allowances for these types of purchases.

Table 4.0: Employee Reimbursements, FY 2007-08.

Type of Expenditure	Amount
Food	\$4,696
Travel	\$2,507
Supplies for SEDC	\$1,148
Give-A-Way Gifts	\$370
Tuition	\$1,520
Mileage	\$2,456
Parking	\$294
Other	\$4,124
Total	\$17,115

Source of Data: MCG analysis of expenditure reports.

Moreover, we noted instances where the SEDC President and other employees were reimbursed for expenses even though original receipts were not provided. Instead, SEDC employees prepared a memo to the Director of Finance explaining the nature and amount of the expenditure. Best practices require reimbursements upon submission of the expenditure receipt only.

Another expenditure that we identified was the lease payments to PDP Imperial Partners, LLC (PDP). In FY 2007-08, SEDC paid PDP \$174,917 in rent payments. Given that PDP is the lease holder of the property in which SEDC has been housed since 2002 and coupled with the fact that SEDC has contracted with PDP on redevelopment projects during this time, a conflict of interest exists, in our professional judgment, of the leasing arrangement. The SEDC President explained

that it is and has been common practice for SEDC to enter into lease agreements with developers that built SEDC-sponsored facilities.

Compensation Practices Substantially Benefited SEDC Employees

MCG further reviewed the details of SEDC employee compensation and found that staff were provided a substantial amount of supplemental income. Between FYs 2003-04 and 2007-08, staff were given supplemental income in the form of vacation and sick leave accrual buyouts (in-lieu payments), holiday bonuses, longevity pay, acknowledgement pay, incentive pay, and cost of living adjustments, and one-time salary adjustments. While some forms of compensation were reasonable, such as leave buyouts, others were inappropriate, such as acknowledgement pay, longevity, incentive pay, and one-time salary adjustments. Multiple cost of living increases were also awarded in a given year. SEDC's budget presentation practices enabled executive management to hide the types and amounts of supplemental income that were provided, which would have been difficult to identify because SEDC's expenditures showed that SEDC did not have substantial changes to its operations over the course of the audit period. As shown in Table 1.3, a four percent change occurred over a three-year period for salaries and benefits.

We describe below how SEDC was able to provide significant salary increases to staff.

SEDC's approved budget contains data on salaries for each SEDC position in terms of minimum and maximum ranges for salaries, such as \$130,000 to \$160,000, as shown in Table 5.0 for FY 2006-07. The total value of the minimum range is \$662,000 and the total value of the maximum range is \$840,000. However, SEDC presented only a total of \$940,000 for "Sub-Total Positions and Salaries" which was \$100,000 more than the total maximum range of salaries presented. SEDC presented its budget in this fashion for each fiscal year that we reviewed – 2004 through 2007.

Table 5.0: SEDC Board Approved Salary Information for SEDC Positions, FY 2006-07I

Position	Budgeted Salary Minimum		Budgeted Salary Maximum
President	\$130,000	To	\$160,000
Director of Finance	\$75,000	To	\$95,000
Manager of Projects/ Development**	\$75,000	To	\$95,000
Community Relations Manager	\$75,000	To	\$95,000
Senior Planner		n/a	
Senior Accountant	\$55,000	To	\$71,000
Projects Coordinator	\$49,000	To	\$60,000
Executive Assistant	\$42,000	To	\$57,000
Staff Accountant***	\$38,000	To	\$48,000
Administrative Support Coordinator	\$35,000	To	\$45,000
Assistant Community Development Coordinator	\$30,000	To	\$40,000
Receptionist	\$26,000	To	\$32,000
Communications Coordinator	\$32,000	To	\$42,000
Messenger Clerk (half time)	n/a		
Subtotal Positions and Salaries		\$940,000	
Overtime/Temporary/Bonus/Misc		\$94,000	
Total Positions and Salaries (Budget Request)		\$1,034,000****	

(**) This position was not funded in FY06-07 but fully funded in FY07-08

(***) Title change from Accounting Technician

(****) Amount approved by the SEDC Board and the City RDA.

We further examined the budget detail that was available for the FY 2006-07 budget and found that the \$940,000 that was requested and approved included, as shown in Table 6.0, an estimated \$834,000 in base salaries inclusive of salary increases, \$46,000 allocated for vacation and sick leave buyout (in lieu payments), and \$34,000 in cost of living adjustments. SEDC provided COLAs that exceeded the City's COLA's increases and in some years, where COLAs were denied for City employees, SEDC received substantial COLA increases for FY 2005-06 and FY 2006-07, as shown in Table 7.0. We also found that COLAs were given multiple times throughout a fiscal year. For example, in FY 2006-07, payroll records show that two COLAs were provided to staff in July and December of 2006 which is an uncommon practice. The remaining \$26,000 that was included in the \$940,000 request was for merit pay increases to staff. This amount should have been reported under a separate line item. Finally, as reflected in Table 5.0, SEDC requested \$94,000 in overtime, temporary services/bonuses and miscellaneous salary expenditures, but there was no available documentation for its support.

Table 6.0: FY 2006-07 Budget Detail for \$940,000 requested for Positions and Salaries

Position	Base Salary	Vacation and Sick Leave Buyouts	Cost of Living Adjustment	Total Compensation
President	\$165,000	\$19,038	\$6,600	\$190,638
Director of Finance	\$100,000	\$3,846	\$4,000	\$107,846
Executive Assistant	\$58,448	\$3,372	\$2,338	\$64,158
Administrative Support Coordinator	\$43,680	\$2,520	\$1,747	\$47,947
Corporate Receptionist	\$31,720	\$1,830	\$1,269	\$34,819
Asst. Community Dev. Corr.	\$35,000	\$0	\$1,400	\$36,400
Community Relations Manager	\$75,920	\$4,380	\$3,037	\$83,337
Project Coordinator	\$52,000	\$3,000	\$2,080	\$57,080
Senior Planner (hourly \$45.00 per hour)	\$75,000	\$1,442	\$3,000	\$79,442
Staff Accountant	\$46,800	\$2,700	\$1,872	\$51,372
Senior Accountant I	\$66,040	\$3,810	\$2,642	\$72,492
Clerk/Messenger	\$22,620	\$0	\$905	\$23,525
Intern	\$0	\$0	\$0	\$0
Asstant Project Coordinator	\$40,000	\$769	\$1,600	\$42,369
Communications Coordinator (Part-time)	\$20,800	\$0	\$832	\$21,632
Rounding	\$972	(\$707)	\$678	\$943
TOTAL	\$834,000	\$46,000	\$34,000	\$914,000
Merit Increases				\$26,000
Actual Budget Amount (Regular Salaries)				\$940,000

Table 7.0: COLA increases allocated to SEDC employees versus City of San Diego employees.

	SEDC* Cost of Living Adjustment	City** Cost of Living Adjustment
FY 2003-04	6.58%	2 - 3%
FY 2004-05	7.58%	2 - 3%
FY 2005-06	8.46%	0%
FY 2006-07	7.61%	0%
FY 2007-08	3.39%	4%

Note - * SEDC calculated percent is an average. MCG calculated by dividing the total COLA for entire payroll by total Base Salaries again for the entire payroll. It should be noted that not all employee received a COLA, and thus reduced the average percentage of the COLA.

** City COLA percentages from bargaining agreement for MEA bargaining unit. The COLA's provided at the City were part of the annual employee salary increase. When the City provides COLA, the increases are included in the employee's regular paychecks. At SEDC, separate payroll checks reflecting the entire COLA were issued to its employees.

Table 8.0 further provides detail on SEDC's budget request for base salaries, leave buyouts (payments in lieu), and COLA's for SEDC employees from FY 2004-05 to FY 2006-07.

Table 8.0: SEDC Budget Detail, FYs 2004-05 through FY 2006-07.

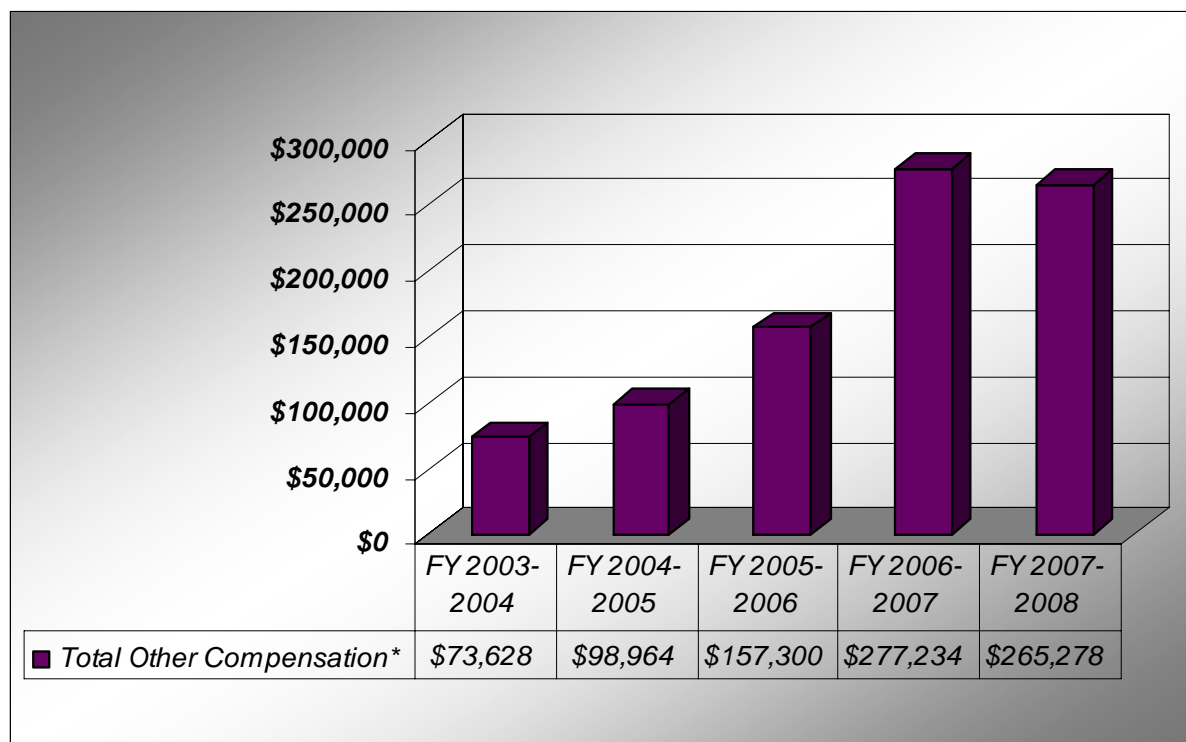
	FY 2004-05	FY 2005-06	FY 2006-07
Regular Salaries (Base Salaries)	\$823,300	\$861,432	\$834,000
Regular Salaries (Payments in Lieu)	\$50,768	\$49,214	\$46,000
Regular Salaries (COLA)	\$32,932	\$68,916	\$34,000
Merit	\$0	\$0	\$26,000
Rounding	\$0	\$438	\$0
Sub-Total Regular Salaries	\$907,000	\$980,000	\$940,000
Misc Salary and Wages	\$35,000	\$35,000	\$36,000
Allow for OT/Merit and Bonuses	\$48,000	\$48,000	\$58,000
TOTAL	\$990,000	\$1,063,000	\$1,034,000

In addition to cost-of-living adjustments, SEDC employees were also awarded over the years with longevity pay, year-end acknowledgement pay, incentive pay and one-time salary adjustments. MCG determined this compensation was not detailed in any of the budget detail that we examined. To help pay for the compensation, SEDC used available funds from salary savings that occurred when SEDC employees left the Agency, from unfilled positions that were budgeted for, and from the additional funding imbedded in the budget request that contained no supporting detail. SEDC was also able to pay higher COLAs and holiday bonuses in this way.

As shown in Appendix 1, the amount of longevity pay provided to staff over a five-year period was \$25,000; year end acknowledgement pay was \$256,100; incentive pay was \$171,900; holiday bonuses were \$144,028, COLAs were \$261,128 and a one-time salary adjustment was provided in FY 2006-07 that totaled \$14,248. When the City denied SEDC's proposed minimum and maximum salary ranges for the FY 2006-07 budget, the SEDC President circumvented the denial and awarded herself, the Director of Finance, and the Executive Assistant a one-time salary adjustment by embedding the raises into the "Sub-Total Position and Salaries" line item. Although the salary adjustments were already denied by the City, the SEDC President authorized her own increase of \$7,000 and the increases of \$5,000 for the Director of Finance and \$2,248 for the Executive Assistant.

As shown in Chart 9.0, the total value of COLA, one-time salary adjustment, holiday bonus, longevity, year-end acknowledgment, and incentive pay amounted to \$872,404. Analysis of the data shows SEDC substantially increased supplemental compensation to its employees by 76 percent beginning in FY 2006-07. Based on our review of the payroll records, it appears that the supplemental increases affected the City's 403B contributions, but the City will need to review the contributions to determine the full extent of the financial impact.

Chart 9.0: Value of COLA, holiday bonus, longevity, year-end acknowledgement, one-time salary adjustment, and incentive pay for SEDC employees



* Total Compensation for five years equaled \$872,404

In allocating the extra compensation, the Director of Finance decided how much to pay himself and other SEDC employees, including the SEDC President. Both the SEDC President and the Director of Finance explained that an employee's length of employment at SEDC determines longevity pay and as a result, some SEDC employees were paid higher amounts. However, our analysis showed that the Project Coordinator position was paid \$20,400 in supplemental compensation in FY 2006-07 for 7.5 years of employment while the Administrative Coordinator position was paid \$14,627 in supplemental compensation for 8 years of employment. We could not determine because of the differences in pay provided to these two employees whether the payment was solely a function of base salary or pure longevity.

We examined total compensation provided among positions that received the most supplemental income within SEDC: The President, the Director of Finance, the Executive Assistant, the Senior Accountant, and Assistant Project Coordinator. For the five years under review the SEDC President self-approved her COLA, holiday bonus, longevity, year-end acknowledgment, one-time salary adjustment, and incentive compensation⁵ amounting to \$228,068 as shown in Table 10.0. This compensation should have been approved, at a minimum, by the Chairman of the Board.

⁵ Excludes amounts paid for vacation or sick leave buy outs and car allowances.

Additionally, while the Director of Finance explained to us that he has no authority to do so as the Director of Finance, he approved all of the President's buyouts for accrued sick and vacation time. At no point should management have junior personnel approve a request for reimbursement, because it places the employees in a precarious position in that they are less likely to deny the request for fear of retribution. Between FY 2003-04 and FY 2007-08, the SEDC President received \$65,431 in vacation and sick buyouts for accrued leave. The SEDC President reported that she has not taken a day off for sick leave or vacation because she enjoys her position. A risk factor for fraud in any organization is present when key employees work for many years without taking time off. SEDC does not have a provision in its operating agreement with the City nor in the SEDC President's contract that accrued leave must be taken.

The Director of Finance had also inappropriately approved an increase in the SEDC President's car allowance in April 2003. While the Board Chair provided an authorized signature for the salary increase, the Director of Finance crossed out the \$400 monthly car allowance stipulated on the personnel action form and changed the amount to \$450. An accounting technician that was employed at SEDC at the time questioned the increase to be paid retroactively. See Appendix 2 for the email.

Table 10.0: SEDC President Compensation, FY 2003-04 through FY 2007-08

President	Base Compensation	Buy Out Compensation (Sick leave & Vacation)*	COLA, holiday bonus, longevity, year-end acknowledgment, one-time salary adjustment, and incentive pay compensation	Total Compensation
FY 2003-04	\$145,000	\$13,481	\$14,620	\$173,101
FY 2004-05	\$151,600	\$14,323	\$18,500	\$184,423
FY 2005-06	\$158,000	\$14,889	\$33,440	\$206,328
FY 2006-07	\$158,000	\$12,154	\$82,700	\$252,854
FY 2007-08	\$172,000	\$10,585	\$78,808	\$261,393
Total			\$228,068	

* SEDC allows 120 accrued leave for eligibility of buy-out. Buy Out Compensation in terms of hours are as follows.

- FY 03-04 – 160 vacation hours, 40 Sick Leave = 200 total hours
- FY 04-05 – 160 vacation hours, 40 Sick Leave = 200 total hours
- FY 05-06 – 136 Vacation hours, 60 Sick Leave = 196 total hours
- FY 06-07 – 120 Vacation hours, 40 Sick Leave = 160 total hours
- FY 07-07 – 128 Vacation hours, 0 Sick Leave = 128 total hours

For the five years under review, the value of the Director of Finance's COLA, holiday bonus, longevity, year-end acknowledgment, one-time salary adjustment, and incentive pay amounted to \$183,000 as shown in Table 11.0.

Table 11.0: SEDC Director of Finance Compensation, FY 2003-04 through FY 2007-08

Director of Finance	Base Compensation	Buy Out Compensation (Sick leave & Vacation)*	COLA, holiday bonus, longevity, year-end acknowledgment, one-time salary adjustment, and incentive pay compensation	Total Compensation
FY 2003-04	\$87,000	\$4,865	\$10,140	\$102,005
FY 2004-05	\$91,000	\$3,346	\$13,860	\$108,206
FY 2005-06	\$95,000	\$548	\$28,400	\$123,948
FY 2006-07	\$95,000	\$0	\$67,300	\$162,300
FY 2007-08	\$105,000	\$4,038	\$63,400	\$172,438
Total			\$183,000	

* SEDC allows 120 accrued leave for eligibility of buy-out. Buy out compensation in terms of hours are as follows:

- FY 03-04 – 120 vacation hours, 0 Sick Leave = 120 total hours
- FY 04-05 – 80 vacation hours, 0 Sick Leave = 80 total hours
- FY 05-06 – 0 Vacation hours, 12 Sick Leave = 12 total hours
- FY 06-07 – 0 Vacation hours, 0 Sick Leave = 0 total hours
- FY 07-07 – 80 Vacation hours, 0 Sick Leave = 80 total hours

For the five years under review, the value of the SEDC Executive Assistant's COLA, holiday bonus, longevity, year-end acknowledgment, one-time salary adjustment, and incentive pay amounted to \$79,560, as shown in Table 12.0.

Table 12.0: SEDC Executive Assistant Compensation, FY 2003-04 through FY 2007-08

Executive Assistant	Base Compensation	Buy out Compensation (Sick leave & Vacation*)	COLA, holiday bonus, longevity, year-end acknowledgment, one-time salary adjustment, and incentive pay compensation	Total Compensation
FY 2003-04	\$52,001	\$2,942	\$6,440	\$61,383
FY 2004-05	\$54,000	\$4,077	\$7,860	\$65,937
FY 2005-06	\$56,200	\$2,333	\$13,996	\$72,529
FY 2006-07	\$56,200	\$2,162	\$26,824	\$85,186
FY 2007-08	\$61,000	\$2,405	\$24,440	\$87,845
Total			\$79,560	

* SEDC allows 120 accrued leave for eligibility of buy-out. Buy out compensation in terms of hours are as follows:

- FY 03-04 – 80 vacation hours, 40 Sick Leave = 120 total hours
- FY 04-05 – 120 vacation hours, 40 Sick Leave = 160 total hours
- FY 05-06 – 27 Vacation hours, 60 Sick Leave = 87 total hours
- FY 06-07 – 40 Vacation hours, 40 Sick Leave = 80 total hours
- FY 07-07 – 42 Vacation hours, 40 Sick Leave = 82 total hours

For the five years under review, the value of the SEDC Senior Accountant's COLA, holiday bonus, longevity, year-end acknowledgment, one-time salary adjustment, and incentive pay amounted to \$64,942 as shown in Table 13.0.

Table 13.0: SEDC Senior Accountant Compensation, FY 2003-04 through FY 2007-08

Senior Accountant	Base Compensation	Buy Out Compensation (Sick leave & Vacation)	COLA, holiday bonus, longevity, year-end acknowledgment, one-time salary adjustment, and incentive pay compensation	Total Compensation
FY 2003-04	\$32,735	\$0	\$0	\$32,735
FY 2004-05	\$61,083	\$923	\$6,520	\$68,526
FY 2005-06	\$63,500	\$1,099	\$12,680	\$77,279
FY 2006-07	\$66,040	\$1,270	\$22,882	\$90,192
FY 2007-08	\$69,000	\$1,327	\$22,860	\$93,187
Total			\$64,942	

* SEDC allows 120 accrued leave for eligibility of buy-out. Buy out compensation in terms of hours are as follows:

- FY 03-04 – 0 vacation hours, 0 Sick Leave = 0 total hours
- FY 04-05 – 0 vacation hours, 32 Sick Leave = 32 total hours
- FY 05-06 – 0 Vacation hours, 36 Sick Leave = 36 total hours
- FY 06-07 – 0 Vacation hours, 40 Sick Leave = 40 total hours
- FY 07-07 – 0 Vacation hours, 40 Sick Leave = 40 total hours

For the five years under review, the value of the SEDC Assistant Project Coordinator/Project Coordinator's COLA, holiday bonus, longevity, year-end acknowledgment, one-time salary adjustment, and incentive pay amounted to \$62,548, as shown in Table 14.0.

Table 14.0: SEDC Assistant Project Coordinator Compensation, FY 2003-04 through FY 2007-08

Assistant Project Coordinator/Project Coordinator	Base Compensation	Buy out Compensation (Sick leave & Vacation)*	COLA, holiday bonus, longevity, year-end acknowledgment, one-time salary adjustment, and incentive pay compensation	Total Compensation
FY 2003-04	\$40,000	\$0	\$3,740	\$43,740
FY 2004-05	\$44,084	\$0	\$5,100	\$49,184
FY 2005-06	\$50,586	\$1,690	\$10,088	\$62,364
FY 2006-07	\$56,120	\$0	\$20,400	\$76,520
FY 2007-08	\$56,383	\$2,230	\$23,220	\$81,833
Total			\$62,548	

* SEDC allows 120 accrued leave for eligibility of buy-out. Buy out compensation in terms of hours are as follows:

- FY 03-04 – 0 vacation hours, 0 Sick Leave = 0 total hours
- FY 04-05 – 0 vacation hours, 0 Sick Leave = 0 total hours
- FY 05-06 – 50.32 Vacation hours, 20 Sick Leave = 70.32 total hours
- FY 06-07 – 0 Vacation hours, 0 Sick Leave = 0 total hours
- FY 07-07 – 87.5 Vacation hours, 0 Sick Leave = 87.5 total hours

When we examined the total compensation actually paid to SEDC employees for each year from FY 04-05 to FY 06-07, compensation generally met the maximum salary amount reported in the budget for three of the five fiscal years that we examined. SEDC during the last two years – FY 2005-06 and FY 2006-07 – substantially exceeded the maximum salary amounts contained in the approved budgets. Tables 15 through 19 provide the amounts that SEDC met or exceeded approved budget totals for employee compensation.

Table 15.0: SEDC Employee Compensation Exceeding Approved Maximum Salary, FY 2003-04

Position	Maximum salary from the approved budget	Total compensation *	Difference
President	\$160,000	\$173,101	\$13,101
Director of Finance	\$95,000	\$102,005	\$7,005
Executive Assistant	\$57,000	\$61,383	\$4,383
Vice President	\$115,000	\$108,594	(\$6,406)
Administrative Support Coordinator	\$42,000	\$45,138	\$3,138
Temp/Clerk Messenger	\$14,000	\$6,179	(\$7,821)
Left half year (receptionist)	\$31,000	\$14,348	(\$16,652)
Director of Corporate Communications	\$95,000	\$96,930	\$1,930
Communications Coordinator	\$42,000	\$41,545	(\$455)
Assistant Project Coordinator	\$52,000	\$43,740	(\$8,260)
Project Coordinator	\$60,000	\$58,460	(\$1,540)
Research Coordinator	\$40,000	\$26,059	(\$13,941)
Senior Accountant II**	\$71,000	\$52,043	(\$18,957)
Senior Accountant I **	\$71,000	\$32,735	(\$38,265)
Staff Accountant	\$48,000	\$46,060	(\$1,940)
TOTAL	\$993,000	\$908,320	(\$84,680)
Approved Budget Total for Salary and Wages		\$968,000	
Difference		\$59,680	

Source of Data: MCG analysis.

* Total compensation, variously includes base salary, overtime, sick and/or vacation buy outs, COLA, holiday bonuses, longevity, year-end acknowledgement, one-time salary adjustments, severance pay, and signing bonuses.

** The Senior Accountant replaced another Senior Accountant.

Table 16.0: SEDC Employee Compensation Exceeding Approved Maximum Salary, FY 2004-05

Position	Maximum salary from the approved budget	Total compensation*	Difference
President	\$160,000	\$184,423	\$24,423
Director of Finance	\$95,000	\$108,206	\$13,206
Executive Assistant	\$57,000	\$65,937	\$8,937
Administrative Support Coordinator	\$42,000	\$48,938	\$6,938
Vice President	\$115,000	\$117,320	\$2,320
Corporate Receptionist	\$31,000	\$31,542	\$542
Research Coordinator	\$40,000	\$35,618	(\$4,382)
Director of Corporate Communications	\$95,000	\$102,027	\$7,027
Communications Coordinator	\$42,000	\$41,654	(\$346)
Assistant Project Coordinator	\$52,000	\$49,184	(\$2,816)
Project Coordinator	\$60,000	\$61,416	\$1,416
Accounting Technician**	\$48,000	\$29,615	(\$18,385)
Senior Accountant	\$71,000	\$68,526	(\$2,474)
Staff Accountant	\$48,000	\$12,704	(\$35,296)
TOTAL	\$956,000	\$957,113	\$1,113
Approved Budget Total for Salary and Wages		\$990,000	
Difference		\$32,887	

Source of Data: MCG analysis.

* Total compensation variously includes base salary, overtime, sick and/or vacation buy outs, COLA, holiday bonuses, longevity, year-end acknowledgement, one-time salary adjustments, severance pay, and signing bonuses.

** The Accounting Technician is a replacement for the Staff Accountant position. The amount shown for the Accounting Technician was based on the budgeted amount for the Staff Accountant.

Table 17.0: SEDC Employee Compensation Exceeding Approved Maximum Salary, FY 2005-06

Position	Maximum salary from the approved budget	TOTAL COMPENSATION*	Diff
President	\$160,000	\$206,328	\$46,328
Director of Finance	\$95,000	\$123,948	\$28,948
Executive Assistant	\$57,000	\$72,529	\$15,529
Administrative Support Coordinator	\$42,000	\$56,424	\$14,424
Corporate Receptionist	\$31,000	\$14,898	(\$16,102)
Asst. Community Dev. Corr.	\$40,000	\$41,475	\$1,475
Director of Corporate Communications**	\$95,000	\$29,758	(\$65,242)
Assistant Project Coordinator	\$52,000	\$62,365	\$10,365
Senior Planner (hourly \$45.00 per hour)	\$0	\$20,893	\$20,893
Accounting Tech	\$48,000	\$57,285	\$9,285
Senior Accountant I	\$71,000	\$77,279	\$6,279
Vice President	\$115,000	\$90,494	(\$24,506)
Communications Coordinator	\$42,000	\$30,644	(\$11,356)
Director of Corporate Communications**	\$95,000	\$93,645	(\$1,355)
Corporate Receptionist	\$31,000	\$21,929	(\$9,071)
Project Coordinator	\$60,000	\$34,281	(\$25,719)
TOTAL	\$1,034,000	\$1,034,174	\$174
Approved Budget Total for Salary and Wages		\$1,063,000	
Difference		\$28,826	

Source of Data: MCG analysis.

* Total compensation variously includes base salary, overtime, sick and/or vacation buy outs, COLA, holiday bonuses, longevity, year-end acknowledgement, one-time salary adjustments, severance pay, and signing bonuses.

** One Director of Corporate Communications left SEDC that was later filled. The total compensation paid for the position exceeded the maximum budgeted salary.

Table 18.0: SEDC Employee Compensation Exceeding Approved Maximum Salary, FY 2006-07

Position	Maximum Salary From the Approved Budget	Total compensation*	Difference
President	\$160,000	\$252,854	\$92,854
Director of Finance	\$95,000	\$162,300	\$67,300
Executive Assistant	\$57,000	\$85,186	\$28,186
Administrative Support Coordinator	\$45,000	\$66,725	\$21,725
Corporate Receptionist	\$32,000	\$40,018	\$8,018
Assistant Community Development Coordinator	\$40,000	\$47,454	\$7,454
Community Relations Manager	\$95,000	\$82,340	(\$12,660)
Project Coordinator	\$60,000	\$76,520	\$16,520
Senior Planner (hourly \$45.00 per hour)	\$0	\$20,345	\$20,345
Staff Accountant	\$48,000	\$67,533	\$19,533
Senior Accountant I	\$71,000	\$90,192	\$19,192
Clerk/Messenger	\$0	\$15,646	\$15,646
Intern	\$0	\$1,976	\$1,976
TOTAL	\$703,000	\$1,009,088	\$306,088
Approved Budget Total for Salary and Wages		\$1,034,000	
Difference		\$24,912	

Source of Data: MCG analysis.

* Total compensation variously includes base salary, overtime, sick and/or vacation buy outs, COLA, holiday bonuses, longevity, year-end acknowledgement, one-time salary adjustments, severance pay, and signing bonuses.

Table 19.0: SEDC Employee Compensation Exceeding Approved Maximum Salary, FY 2007-08

Position	Maximum Salary From the Approved Budget	Total compensation*	Difference
President	\$180,000	\$261,393	\$81,393
Director of Finance	\$120,000	\$172,438	\$52,438
Executive Assistant	\$68,000	\$87,845	\$19,845
Administrative Support Coordinator	\$55,000	\$66,560	\$11,560
Corporate Receptionist	\$40,000	\$40,694	\$694
Assistant Community Development Coordinator	\$45,000	\$46,300	\$1,300
Director Corporate Communications	\$85,000	\$81,020	(\$3,980)
Project Coordinator/Project Manager	\$68,000	\$81,833	\$13,833
Staff Accountant	\$58,000	\$73,168	\$15,168
Senior Accountant I	\$80,000	\$93,187	\$13,187
Clerk/Messenger	\$28,000	\$6,016	(\$21,984)
Intern	\$0	\$2,623	\$2,623
Administrative Secretary	\$0	\$31,411	\$31,411
Project Coordinator/Project Manager**	\$68,000	\$51,832	(\$16,168)
Project Coordinator/Project Manager**	\$68,000	\$53,939	(\$14,061)
Clerk/Messenger**	\$28,000	\$19,639	(\$8,361)
TOTAL	\$991,000	\$1,169,899	\$178,899
Approved Budget Total for Salary and Wages		\$1,307,000	
Difference		\$137,101	

Source of Data: MCG analysis.

* Total compensation variously includes base salary, overtime, sick and/or vacation buy outs, COLA, holiday bonuses, longevity, year-end acknowledgement, one-time salary adjustments, severance pay, and signing bonuses.

**SEDC hired two project coordinator/project managers that were not in the original budget.

Our review of SEDC's merit pay policy, which is the only type of supplemental pay compensation within SEDC's employee handbook, showed that merit pay required supervisor recommendation, and a successful completion of a six-month employee probationary period. It also stipulated that increases should not be given in the event of inadequate performance or the cumulative results of an employee performing at a level lower than desired. We examined whether any of the merit pay increases were linked to employee performance. All staff interviewed said they submitted their individual performance reports (called the 30-60-90 Report) directly to the President (with the exception of the two accountants in the Finance Division who said they first submit their report to the Director of Finance). According to staff, the SEDC President reviews the reports and monitors each individual's performance. We were not able to validate whether performance evaluations were actually prepared for all SEDC employees or used as a basis for awarding merit pay because our request and the City Auditor's request for this information was formally denied by SEDC, as shown in Appendix 3.

SEDC staff reported that the performance evaluations had no impact on the supplemental compensation received by the employees. Moreover, although the SEDC President's contract requires an annual performance evaluation, the SEDC Board Chair reported that he had not prepared an evaluation for the SEDC President. Other SEDC Board members also reported that they have not provided performance feedback to the SEDC President. The SEDC President validated the Board members assertion and explained that any feedback was generally verbal and informal.

We further examined whether SEDC had provided appropriate disclosure to its Board of Directors about the supplemental compensation. The SEDC President confirmed that none of the supplemental compensation increases that were provided to staff were specifically approved by the SEDC Board. None of the SEDC Board members that we spoke to, including the SEDC Board Chair, reported that specific approval was provided regarding supplemental income increases or presented to the Board for discussion. However, SEDC's Director of Finance explained the SEDC Board of Directors approved the supplemental increases when the Board approved the annual budget. However, given the types and amounts of compensation awarded to employees, the supplemental compensation should have been specifically detailed in the budget for City and Board of Director discussion and approval. The SEDC President explained that SEDC's compensation practices were already in place prior to her promotion as President of the Agency in 1994.

The Director of Finance said that no direct question was ever asked about employee compensation and had the questions been asked, then the information would have been provided. As previously reported, SEDC, in response to a request for greater detail, did make its most recent budget books available for review. According to the SEDC Board member those budget books were reviewed with satisfaction. However, in our professional judgment, SEDC's questionable compensation practices would not have been identified because critical data on other types of supplemental income, such as acknowledgment pay, longevity pay, and incentive pay were omitted.

We examined whether SEDC had fraudulent compensation practices. From a performance auditing and internal auditing perspective, fraud is the intent to conceal or omit information that leads to the direct benefit of an individual or organization. We determined that SEDC omitted and concealed material information about employee compensation over a five-year timeframe, which led to the direct financial benefit of its employees. Additionally, SEDC's President circumvented the City denial for salary increases and paid staff anyway without informing the Board of Directors and the City of their intent to do so.

Other Controls within SEDC Were Generally Not Effective

Summary of results

The foundation of any control environment is the governance structure from which agencies and organizations operate. The governance structure can also consist of sound organizational policies and procedures. We determined that SEDC is governed by an outdated Operating Agreement, which provides broad powers to the organization. The SEDC President provides daily oversight and is the decision-maker for most of SEDC's operations because key deputy management positions remain vacant. While policies and procedures do exist, they do not include the controls necessary to ensure an effective internal control environment and for the most part, exceptions are allowed at the discretion of the SEDC President.

Although SEDC is in compliance with its operating agreement, other key requirements are needed

Generally, when separate entities are established, such as the SEDC and CCDC, each report directly to the RDA Executive Director who manages redevelopment through one centralized agency. With respect to SEDC, its President reports directly to the SEDC Board of Directors rather than the Executive Director of the RDA. With this type of structure, operating agreements become essential in establishing the authority and expectations of an entity's operations. Operating agreements are an essential element in establishing a governance structure. SEDC entered into an operating agreement with the City in 1981.

SEDC's operating agreement with the City's RDA outlined covenants for SEDC to perform services such as providing executive direction for the Project areas, and to report to the City as an independent contractor, not a City agency. SEDC, under the agreement, could employ personnel, retain consultants and experts and acquire or dispose of property.

Section 2.04 of the operating agreement does not allow SEDC to incur any cost or expense that exceeds the approved budget or approved transfer of appropriations. Additionally, SEDC cannot enter into contracts in excess of the funds provided in the Corporate Budget. Within Section 2.05 there is an additional requirement that SEDC shall obtain a certification of the availability of funds from the City Auditor prior to entering into the contracts to be funded through project budgets.

We found, however, that the Operating Agreement was outdated as evidenced by the lack of industry practices of including limitations to SEDC power and authorities and does not provide information on the circumstances that the SEDC management would be liable for in the event of any unlawful acts or omissions. Such key requirements are recommended for operating agreements to ensure proper authority is exercised in the day-to-day operations.

City Redevelopment Agency staff reported that they have not reviewed SEDC compliance with the operating agreement and do not have a process in place to do so. According to City Redevelopment Agency officials, the Division has not been assigned the responsibility for

conducting oversight of the SEDC and no other entity has been delegated this responsibility by the RDA governing body. Review of SEDC activities takes place through the approval process for specific redevelopment project proposals but there is no process in place to conduct periodic reviews of SEDC operations and compliance with the operating agreement. The operating agreement does not contain a provision requiring a periodic compliance review; the operating agreement contains only a provision that permits the City to dissolve SEDC at will. Our review of compliance has found that SEDC has generally adhered to its operating agreement.

SEDC President can override controls

Another important component of a system of internal controls is the establishment of formal policies and procedures that define the required controls for various operational activities. SEDC had established formal policies and procedures, but SEDC's administrative manual was very basic and its processes did not include strong controls. SEDC also has an employee handbook that defines other controls for operations, such as leave policies and equal opportunity employment. Most of the controls that were established require approval of the SEDC President and implementation, for the most part, is at the discretion of the President. MCG found that employees were paid compensation increases before completing the necessary six-month probationary period.

SEDC's organizational structure lacks key senior management positions

A strong organizational structure, especially if authority is segregated among the entity, can alternatively provide some assurance over the integrity of operations especially when policies and procedures are not that strong. We found that SEDC's organizational structure is flat⁶ and that most of the control over operations and decision-making is at the level of the SEDC President. The SEDC President directs the daily operations of the Projects and Development Division, Communications Division, and the Executive Assistant, who supervises the four administrative positions within the Administration Division. As a result, the SEDC President is responsible for direct supervision of at least half of the staff. While the Director of Finance and the Executive Assistant assist with the daily work of others, we noted that the middle managers received directives from the President and reportedly did little without the President's approval or direction.

It is important to note that SEDC is a small agency regarding staffing resources and its current culture is such that the President makes all key decisions. SEDC does have a management team, known as the Executive Team, and this team consists of the President, the Director of Finance, and the Community Relations Manager. In previous years, this team also included a Vice President of Operations and a Director of Corporate Communications. SEDC eliminated the Vice President position during the FY 2006-07 fiscal period and has not requested funds for this position since that time. The President has stated that she intends to fill the Manager of Projects and Development in FY 2008-09.

⁶ SEDC is organized into four Divisions: Administration, Projects and Development, Finance, and Communications.

The President is seen as the key decision-maker by the other Executive Team Managers, as well as by the rest of SEDC's staff, City officials, and the development community at large. When MCG interviewed SEDC managers and staff about their duties and responsibilities, a common answer to questions was, 'That is the President's responsibility'. SEDC employees reported that the President had responsibility for (1) assigning, directing, and approving all aspects of Project Coordinator work; (2) conducting all negotiations with potential developers; (3) overseeing and managing all communication with the public, the City, the SEDC Board and other stakeholders; (4) determining consultant needs and selecting and hiring consultants; and (5) directing all redevelopment planning. While all of these things are within the purview of a President's responsibility, SEDC does not have an adequate replacement on staff that could step in and take her place upon her leaving. A Vice-President of Operations is needed, which will allow better segregation of duty and as a result, more appropriate authorization controls, which were previously discussed in this report.

Sound internal controls require that an organization have high-level employees who can take over the duties of their leaders on an interim basis in the event that leaders take an unexpected prolonged absence or leave the organization all together. SEDC does not appear to have a high-level employee who could perform all of the duties of the President on an interim basis. The Director of Finance, who has also been with SEDC for over 17 years, could most likely perform some of the day-to-day operations surrounding various financial, administrative and support functions. However, he probably could not oversee and manage the heart of the agency --- the redevelopment projects and programs --- because these are outside the scope of his current duties and responsibilities. The only other manager currently with SEDC, the Community Relations Manager, has been there for less than two years and again does not directly deal with the redevelopment projects and programs and has a background in public relations.

A specific area that would be dramatically affected by the President's departure is the Project and Development division. The Projects and Development Division currently consists of three Project Coordinators and the President told us that she plans to promote one of these Coordinators to Project Manager in FY 2009. Project Coordinators are the front-line staff responsible for implementing the projects and programs described in the various SEDC plans as well as any other project the President decides to initiate. One Project Coordinator has been with SEDC for nearly nine years. The other two Project Coordinators were hired for this position in August of 2007, and have been with the agency for less than one year. SEDC promoted all three of the Project Coordinators to Project Managers in FY 2008.

According to the California Debt Advisory Commission's 1997 Best Practices Report, the "skills and experience of project managers were even more important than any particular style of management, and effective project managers were difficult to find." Further, the report said, project management "involves oversight and daily management of projects, is usually performed by one or more project managers with backgrounds in architecture, business, public policy, or urban planning." The California Redevelopment Association also cites this as a best practice, stating "a redevelopment agency should assure that agency personnel are professionally qualified and well-trained and that they have appropriate legal and technical support." In our interviews with SEDC's Project Coordinators, all three cited prior experience that met this criterion. Further, the SEDC President said that all SEDC staff attends the California Redevelopment

Association's training on the fundamentals of redevelopment as part of their new hiring training and development. Nonetheless, some members of the SEDC Board of Directors suggested that project managers needed additional project management experience because of a lack of knowledge regarding redevelopment project requirements.

To determine whether SEDC has adequate staff to accomplish its work, we analyzed staffing data and met with the President, including selected staff, regarding their workloads. Our analysis of staffing data included examining the amount of overtime and double time SEDC paid to its employees who are eligible for such payments. Our analysis showed that SEDC resources, overall, were satisfactory. Table 18.0 shows the dollar amount of overtime and double time paid to these employees for the fiscal years 2004 through 2007 as well as these payments as a percentage of payroll. Although overtime doubled, total expenditures that were paid remained low, accounting for less than 1 percent (0.9 percent) of payroll expenditures for the entire period.

Table 18.0: Overtime and Double- time as a Percent of Payroll, Fiscal Years 2005 through 2007

Fiscal Year	Payroll Amount	Overtime Amount	Overtime as Percent of Payroll
2004 – 05	\$957, 014	\$5,107	0.5%
2005 – 06	\$1,034,174	\$10,368	1.0%
2006 – 07	\$1,009,088	\$11,033	1.1%
Total	\$3,000,276	\$26,508	0.9%

Source of Data: MCG analysis.

SEDC staff told us that they were almost always able to get their work done within normal business hours. Moreover, when they did work overtime it was usually because they had to attend evening meetings, for example, to make a presentation to a community organization or the SEDC Board of Directors. Further, staff said they were not required to attend the SEDC Board meetings unless directed by the President. These demands on their time outside of normal business hours did not result in significant payment of overtime.

Some record keeping controls are not adequate.

Record-keeping controls ensure that assets are properly controlled and transactions are properly recorded as to account, amount and period. Our review, based on the available data, did not identify exceptions to record-keeping controls within the SEDC's Finance unit. However, we did note that the minutes of the one meeting reportedly held by the SEDC Board Budget and Personnel Committee were not properly retained. Moreover, as we previously reported, we questioned authenticity of the documentation and believe that the documentation was altered to conceal inappropriate authorizations. An effective set of record keeping controls should be established to limit access to records.

Safeguarding controls were generally sufficient

Safeguarding controls limit access to, and control, the use of assets and records. SEDC does have fixed assets valued over \$5,000 and reports on these assets within its financial statements.⁷ However, SEDC is not tagging for inventory and safeguarding purposes either capital assets or inventory assets. Tagging of assets allows the Agency to track equipment and other property. SEDC stated that it has not implemented this control because most of its computers and other electronics were leased and capital assets were mainly furniture. Assets valued under \$5,000 such as electronics, telecommunication, and other computer hardware were accounted for. One computer laptop was accounted for, but information to validate whether the equipment matched the data on the inventory list was not provided to us.

Reconciliation controls were not performed

Reconciliations are independent verifications, which help to ensure that control activities, such as authorization, safeguarding of assets, record keeping, and segregation of duties are functioning as intended. SEDC submits financial information to the City that includes requests for direct payments to vendors and consultants for costs directly associated with projects and for monthly reimbursements of its administrative costs. SEDC is not reviewing and reconciling the direct payments it has requested and received from the City's redevelopment agency to ensure these payments were posted and accounted for accurately. SEDC relies on the Accounting Unit within the City's Office of the Chief Financial Officer to perform internal control monitoring and oversight of its payment requests. At the time of our review, the City's Accounting Unit reported that it had not performed timely review of SEDC's direct payment requests and payments because there was no control in place. However, the City's Controller later explained that the City's Accounts Payable unit reviews the payment requests and payments. Because SEDC explained that the City was reviewing the direct payments, SEDC had not performed a secondary control whereby it reconciled the direct payments to ensure that the payments were posted accurately and paid from the appropriate fund. Without the review and reconciliation of direct payments, SEDC cannot assure that the budget-to-actual comparison is completely accurate and appropriately reflects the actual expenses that have occurred within each project budget and fund.

⁷ \$5,000 is the threshold for the reporting of assets.

SECTION II: SEDC REDEVELOPMENT ACTIVITIES COULD BE STRENGTHENED IN SOME AREAS

SECTION OVERVIEW

SEDC describes its redevelopment goals, strategies, and accomplishments in each of its project areas in a total of five plans and reports. The highest-level plan contains broad, general goals for a project area, such as, eliminating blighting influences in a particular area or providing new housing in a particular area. The other plans and reports intend to: 1) show how SEDC will further the general goals contained in the redevelopment plans through describing interim project and program goals and 2) assess what SEDC has accomplished over these periods and discuss what more it needs to do. Although the highest-level plans, the redevelopment plans, have appropriate redevelopment goals for each project area, the subsequent plans generally do not contain interim goals that relate back to the redevelopment plan goals. Moreover, the reports that assess SEDC's progress on its interim goals also generally do not relate back to the higher-level plans. This lack of correlation makes it difficult to understand what SEDC's goals, priorities, and related accomplishments are in each of its project areas.

SEDC does not have agency-wide, strategic goals for its sphere of influence. Determining such goals, through developing a strategic plan, is a redevelopment agency best practice. When asked why SEDC does not have an agency-wide strategic plan, SEDC's President responded that the redevelopment and implementation plans SEDC prepares for each project area serve this function. These, however, cannot fulfill all of the functions of a comprehensive, agency-wide strategic plan because common goals and challenges across the project areas were not identified and the plans do not prioritize activities among the project areas. SEDC's lack of strategic planning may partly explain why some City officials and developers are unsure and confused about what SEDC's overall goals and priorities are for its sphere of influence. Moreover, some also believe that if SEDC administered strategic planning, it would help to reduce conflict and delays in the permitting process with the Planning Department.

SEDC Has Appropriate Project Area Specific Goals

California Redevelopment Act (CRA) requires that redevelopment agencies formulate project area⁸ plans and that these plans contain project area specific goals and strategies for meeting these goals. The highest-level plans are redevelopment plans, which tend to be general documents designed to give redevelopment agencies maximum flexibility for redevelopment activities within a project area. The redevelopment plan must state goals that will lead to the elimination of blight within the project area. Typically, these goals address conditions identified in CRL that contribute to blight, such as vacant land, dilapidated or unsafe structures, and the presence of crime or unsanitary conditions. Although they establish a project area's long-term planning goals and implementation policies and procedures, they do not identify specific potential redevelopment projects or programs. They also give a redevelopment agency certain powers, such as the authority to improve facilities, buy and sell land, and use tax increment financing. It is important to note that the City's Redevelopment Agency has final approval of each redevelopment plan and any subsequent amendments, and the City Redevelopment Agency must formally adopt a redevelopment plan for each project area. SEDC may propose amendments to existing redevelopment plans, and propose the creation of a new project area, but to take effect, both actions must first be approved by the governing body of the City's Redevelopment Agency (the City Council).

The City of San Diego Redevelopment Agency has adopted redevelopment plans, one for each of the four project areas that were formed by the City between 1982 and 1992 and administered by the SEDC. Each of these plans contains broad, long-range goals to be completed by the end of the redevelopment project area.⁹ SEDC management identified the goals contained within each of the four redevelopment plans as the organization's goals.

The redevelopment goals within these plans are appropriate in that they are consistent with the California Health and Safety Code (sections 33037, 33070, and 33071) and the California Redevelopment Association Policy of Best Management Practices adopted in 1997. These two sources describe, in a general way, goals appropriate for redevelopment agencies. For example, the elimination of urban blight, the creation of affordable housing, and job creation. As described below, SEDC's redevelopment plans contain these types of goals, although with more specificity.

The goals within the redevelopment plans are based on the pre-existing land uses within each project area and the requirements of CRL when the Redevelopment Agency adopted each plan. Some redevelopment plan goals are common to all four redevelopment plans and these include job creation through the development of new sites; eliminating blight through the correction of existing land use structures; and strengthening and creating new local businesses using local resources and people. Other goals are in the redevelopment plans of some, but not all, project areas. Examples of goals unique to one or more project areas include improvements in streets, lighting, and landscaping; the redevelopment and rehabilitation of specific residential areas; and the rehabilitation and clean-up of certain commercial properties.

⁸ A project area is the geographically-defined area where development takes place.

⁹ CRA now limits the amount of time that a redevelopment project area may exist.

In order to achieve SEDC's operation set forth in the redevelopment plans, SEDC management utilizes other types of plans and reports (two planning documents, one progress report, and one accomplishment report). These documents are:

1. **Five-Year Implementation Plans:** CRA requires redevelopment agencies to adopt a five-year implementation plan for each project area. According to the CRA, these plans should describe the goals and objectives for each project area over the next five years; identify potential projects and programs that the redevelopment agency may undertake to achieve these goals and their corresponding expenditures; show how these potential projects and programs will help alleviate blight; and describe the agency's low- and moderate-income housing programs.
2. **An interim plan for each project area, required by CRA,** which describes SEDC efforts to meet the organizational goals in the redevelopment plans over the next five years.
3. **Mid-Term Review of Five-Year Implementation Plans:** This progress report assesses the extent to which SEDC is meeting the organizational goals in its five-year implementation plan.
4. **Annual Work Plans:** Contains the short-term operational goals that SEDC will undertake to meet the goals in its redevelopment and five-year implementation plans. SEDC staff participates in the development of the annual work plans for each SEDC division as part of the budget preparation process. CRL¹⁰ requires a redevelopment agency to include in the annual budget a "work program for the coming year."
5. **Annual Accomplishment Report:** SEDC management said the annual accomplishment report is the primary document used to track its progress toward accomplishment of its operational goals. The annual accomplishment report is included within the staff report that accompanies the SEDC budget presented to the City Redevelopment Agency. The SEDC President prepares the report. CRA¹¹ requires a redevelopment agency to include in the annual budget "an examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program."

The documents communicate SEDC's specific and short-term goals and strategies for each project area and annual progress toward accomplishment of the goals. While the goals in the redevelopment plans are adequate and appropriate, the goals contained in these documents could be improved to better communicate the link of SEDC's short-term activities and operations to the long-term organizational goals, as well as better report on to what extent it has made progress toward accomplishment of the organizational goals.

MCG reviewed the most recent implementation plans, which cover the period July 1, 2004, through June 30, 2009. For each project area administered by one of the three entities of the City Redevelopment Agency (City Redevelopment Division, SEDC, and CCDC) a consulting firm drafted and developed the five-year implementation plan with the assistance of staff, according to SEDC management. SEDC managers said the same consulting firm assisted all three entities in the preparation of the five-year implementation plans to ensure consistency in each report's format and contents across all of the City Redevelopment Agency's 17 project areas.

¹⁰ Health and Safety Code Section 33606(d)

¹¹ Health and Safety Code Section 33606(e)

While the plans contain the State reporting requirements identified as a further statement of SEDC's organizational goals, the implementation plans do not fully convey how SEDC's plan for what it hopes to accomplish in a project area over the next five correlate with the goals as stated in the redevelopment plans. For example, approximately one-half of the goals in the plans (12 out of 23), describe actions to amend the redevelopment plan for a project area or the City's community plans in some way or to study the feasibility of expanding the project area. Yet nowhere in these plans does SEDC state how these actions will help to accomplish the goals set forth in the redevelopment plan. Without this broader context of how SEDC actions track back to the accomplishment of the redevelopment plan goals, it is not possible to determine which goals in the redevelopment plans SEDC is hoping to advance through these actions. Further SEDC can clarify the connection between the goals identified in the five-year implementation plans and the redevelopment plans to make a quick assessment of the adequacy and appropriateness of the organizational goals stated in the implementation plans. Also, SEDC can better communicate every five years the extent to which SEDC has accomplished the goals set forth in the redevelopment plans as the project area approaches the end of its lifecycle.

Mid-Term Reviews of Implementation Plans do not clearly assess progress toward accomplishing organizational goals

The Mid-Term Review of the Five-Year Implementation Plan' should assess the extent to which SEDC is accomplishing the five-year implementation plans. The October 2006 Mid-Term Review reports for the four redevelopment areas were brief, ranging from one to three pages and consisted of background sections describing the boundaries of the project areas and lists of accomplishments within the project areas. Accomplishments were not generally tied back to the goals, projects or programs described in the five-year implementation plans. Thus, the mid-term reviews cannot be used to assess the extent to which the implementation plans have been achieved and to show what still needs to be done. Conducting such an assessment is important, however. The California Debt Advisory Commission, in its 1997 best practices report, for example, recommends that redevelopment agencies annually review the extent to which they are accomplishing implementation plan goals. The insufficiency of this type of review, as SEDC communicates it in the Mid-Term Review reports every 2 ½ years, may partly explain why City Planning and Community Development Department officials have said that while they have knowledge of SEDC's general operational goals, they are not always sure what goals SEDC is trying to accomplish when reviewing project proposals submitted by the organization for approval.

Operational goals contained in annual work plans need improvement

The SEDC President identified the items listed in the work plans as SEDC's operational goals. Operational goals are short-term goals and should be measurable and have specific time periods.

In developing the annual work plans, which contain the operational goals, SEDC staff said that they typically refer to the previous year's work plan to identify operational goals that were not accomplished. If the project is continuing into the next fiscal year, they do not usually reference the organizational goals in the five-year implementation or redevelopment plans.

Each work plan (one is developed for each of SEDC's four Divisions: Projects and Development, Finance, Communications, and Administration) lists the specific operational goals that SEDC hopes to accomplish over the next fiscal year. These goals are grouped into categories by project area for the Projects and Development Division and the Communications Division. (The other two support divisions – Finance and Administration – do not categorize their planned activities by project area since these usually support all of the project areas similarly.) The Projects and Development Division work plan also further categorizes the goals by functions, which are: redevelopment plan amendments, residential development, commercial and industrial development, public improvements, and programs (residential rehabilitation). In addition to listing activities under each project area, the work plan for the Projects and Development Division has a section for General Planning Functions and the sub-categories include: discretionary project review, general inquiries, planning, agency-owned property, and neighborhood code compliance.

In general, the operational goals in the work plans are not measurable and do not contain specific time periods for completion, other than being bounded by the fiscal year that the plan covers. For example, operational goals that appear in several forms and within most project areas are “monitor and assist permit processing and approvals”; and “assist developer in completion of DDA obligations”; and “prepare plans.” While describing the general function to be performed, it is difficult to determine if, and when, the goal could be considered completed (what unit of measurement should be used) and whether or not the goal may take several years to accomplish, such as making allowances for the length of time required for comprehensive plan amendments. For example, SEDC managers and staff said amendments to a redevelopment plan may take several years to shepherd through the Redevelopment Agency's approval process but this condition is not reflected in the work plans. Also, the same goal is repeated in the work plans throughout the audit period but it is unclear if any progress has been made toward its accomplishment. For example, in both the FY 2004-05 and 2006-07 work plans, the same operational goal is listed of “site acquisition of city owned sites” for the property located at the west side of 43rd & Logan Avenue.

SEDC has taken steps to improve the work plans between FY 2004-05 to FY 2006-07. For example, the operational goals are organized under redevelopment plan and functional categories, which create some linkages back to the organizational goals listed in the redevelopment plans. For example, one of the functional categories used in the work plans for presenting operational goals for all project areas is “commercial/industrial developments.” The redevelopment plan for each project area contains at least one goal related to “commercial/industrial developments” and it is possible to track the operational goal back to the organizational goals. We found that this correlation between the operational goals in the work plan did not uniformly exist with the organization goals stated in the five-year implementation plan. For example, none of the organizational goals listed in the five-year implementation plan for the Central Imperial Project Area pertain to “commercial/industrial development” although there is a goal aimed at “increasing housing densities and mixed-use development” which could include some commercial or industrial development.

Accomplishment report and work plans were insufficient to allow assessment of progress

SEDC produces three reports to monitor its progress toward completion of its operational goals and could be used to assess the extent to which operational goals are being accomplished: Project Status Report, 30/60/90 Report and Accomplishment Report. Two of these are monitoring tools used by SEDC management to track individual staff performance: the Project Status Report and the 30/60/90 Report. The Project Status Report is a tool used by the President to track the status of tasks and discussed at regular staff meetings; the other tool is the 30-60-90 Report, completed by each staff member once a quarter and summarizes that individual's accomplishments for the past three months. While tying individual staff performance to accomplishing operational goals is a best practice in public management, SEDC did not provide staff evaluations for MCG to make this assessment, and thus we could not use this data to assess progress.

MCG relied on the third tool, the annual Accomplishment Report to evaluate and determine to what extent SEDC is accomplishing its operational goals. We found that we could not make a comprehensive assessment of the extent to which SEDC accomplishes its operational goals by comparing the operational goals in the annual work plan with the accomplishments stated in the annual Accomplishment Report for three reasons. First, there is not a clear correlation between the operational goals, as stated in the work plans, and the accomplishments as listed in the accomplishment reports. This is similar to the disconnect that exists between redevelopment and implementation plans. This disconnect may exist because the work plans are used to help develop the budget line items by staff and approved by the President while the Accomplishment Report is written by the President to summarize the achievements of the previous fiscal year. Second, some of the operational goals in the work plans are vague or not measurable, making an assessment of accomplishment difficult. In the FY 2006-07 work plan, for example, many goals called for SEDC to "monitor" a process, such as the permitting process being administered by the City Development Services Department or construction of a facility by a developer. It is difficult to evaluate whether an agency has sufficiently 'monitored' a process. Third, in contrast to best practices, the operational goals in the work plans do not contain time periods for completion. Some of the operational goals that SEDC lists, such as prepare and conduct workshops for first-time homebuyers, can probably be accomplished within the budget year, but others, such as undertaking certain plan amendments, may take longer. Because assessing timeliness is an integral part of determining the extent to which an agency is achieving its goals, lack of such time periods in the work plans is a concern.

Stakeholders have general familiarity with SEDC organizational goals

In assessing the adequacy and appropriateness of SEDC's goals and the methods to achieve them, MCG obtained input from members of the development community and officials and staff from both the City Planning & Community Investment Business Group and the Development Department on the adequacy and appropriateness of SEDC's goals and methods used to accomplish those goals. MCG defined "members of the development community" as representative(s) from companies or organizations with which SEDC and the City Redevelopment Agency had entered and/or did not enter into a formal development agreement

during the audit period¹². City staff interviewed from the City Planning and Community Investment Department included representatives from the Planning Division and Redevelopment Agency.

When asked if they were familiar with SEDC's goals, all of those interviewed said they were at least generally familiar with the goals of redevelopment but only one indicated familiarity with SEDC's specific goals. When asked to describe typical redevelopment goals, those interviewed commonly cited increasing the tax increment (which is the revenue used to pay for redevelopment activities) and elimination of blight. Based on their general understanding of SEDC's goals, all of those interviewed said that organization's goals were adequate and appropriate for a redevelopment agency. Not one person interviewed specifically identified the redevelopment or implementation plans for each project area as the guiding documents for the organization's goals.

Plans and reports are available on SEDC's website

We examined how SEDC disseminates information about organizational and operational goals to the community that it serves. While SEDC posts its redevelopment plans, implementation plans, and mid-term progress reports on its website under the "Board of Directors" and then "Reports" sub-pages, there is no explanatory text on the home page (www.sedcinc.com) or the "Reports" sub-page to explain the importance of these documents. Specifically, it is not apparent to the website visitor that the organization's goals are to be found in each of the redevelopment plans and five-year implementation plans.

Further, the annual Accomplishment Report is published only within the staff report that accompanies the presentation of the annual SEDC budget to its Board of Directors and the City Redevelopment Agency. The work plans for each Division are not available on the website. A visitor to the website would have to know that the Accomplishment Report is contained within the staff report that accompanies the budget and the date of its consideration by the SEDC Board of Directors considered the budget to locate them on the website. Further, when asked whether SEDC reports on its operational goals for the next fiscal year and accomplishments from the previous fiscal year outside the budget preparation and approval process, SEDC management said there is no other reporting tool provided to the SEDC Board of Directors, City Redevelopment Agency or the public.

Stakeholders would like SEDC to do more long-range planning

Strategic planning is a best practice for agencies at all levels of government, including redevelopment agencies. The California Debt Advisory Commission, for example, stated that redevelopment agencies should conduct strategic planning on a periodic basis to provide long-term direction to projects and programs. Both the U.S. Government Accountability Office (GAO) and the Federal Government Performance and Results Act (GPRA) also discuss strategic

¹² Vendors and consultants who had not entered into a contract with SEDC had not responded to our requests for information. Six companies were contacted.

planning as a best practice for all levels of government. According to GAO, strategic planning provides stakeholders with a comprehensive framework for considering organizational changes and resource decisions. It also holds key players accountable for achieving real and sustainable results. GPRA requires all federal agencies to undertake strategic planning and, although this law does not apply to state and local governments, it is generally accepted as a best practice management strategy for all levels of government.

Key components of strategic planning include a mission statement, outcome-related goals, operational goals, and performance measures. Mission statements convey the overall purpose, functions, and operations of an agency. Outcome related goals are accomplishments or results of a program. These goals, such as encouraging job creation or increasing low- and moderate-income housing, are similar to those discussed in the redevelopment plans and referred to as organizational goals in the previous sections. Operational goals are short-term goals focusing on the processes or tasks that an agency undertakes to accomplish its outcome related goals. Again, these are similar to the work plan tasks discussed in the previous section. Performance measures are measures used to determine the extent to which an agency is achieving its goals.

SEDC has implemented some components of strategic planning. For example, it has an organization-wide mission statement which reflects values common to redevelopment. The mission statement says “SEDC balances public investment and careful planning with a commitment to stimulate development that will increase services, provide a variety of housing and employment opportunities which will improve the quality of life for the residents of southeastern San Diego”. The Projects & Development and Administrative Divisions (the other Divisions have not) have also adopted a mission statement which is published in its annual work plan as part of the budget preparation process.

SEDC also has addressed another component of strategic planning – long-range and short-range planning in each of the four project areas. The operating agreement requires that SEDC conduct long-range planning, albeit within its project areas. SEDC management said it predominantly does this through the redevelopment and implementation plans, and development of its annual budget that includes the work plan and Accomplishment Report. The operating agreement also requires SEDC to provide the City with advice and recommendations regarding the future needs of its sphere of influence and that it regularly consult with City staff engaged in more comprehensive development planning efforts. The SEDC President told us that she complies with these requirements in two ways. First, she communicates future needs of project areas through the various plans discussed in the previous section. However, City officials and staff generally did not cite familiarity with the specific organizational and operational goals contained in these documents. Secondly, the SEDC President reported that she meets regularly with City staff and managers, including members of the Redevelopment Agency governing body (members of the City Council), to discuss SEDC goals and activities. Some of the City and staff we spoke with told us that they regularly meet with the President, but that these meetings usually are project specific and do not focus on comprehensive plans for organization or individual project areas. Others told us that they do not regularly meet with SEDC and, as indicated above, expressed the desire for more information related to SEDC’s priorities and long-term goals to improve the efficiency of their approval processes and communications with SEDC.

City officials and staff told us they do not believe that SEDC effectively communicates its long-range goals or priorities for its redevelopment area as a whole. They view SEDC as working on a project-by-project basis instead of first developing a long-range plan for what it wants to accomplish across all four project areas within its sphere of influence. They also believe that if such strategic planning were done, it would help to reduce conflict and delays in the permitting and planning processes. For example, one official said that SEDC has not established clear priorities because it has not communicated which of its projects or project areas are most important. If it did so, this official continued, the City would be better able to meet SEDC's typically ambitious time schedules for the most important projects. This same official also said that SEDC and the Planning Division (part of the City Planning and Community Investment Department) sometimes have different visions for redevelopment within the sphere of influence, and if SEDC did more joint long-range planning with the city, these differences could perhaps be ameliorated. Another official said that SEDC has not effectively articulated a clear vision of what it wants to achieve, and as a result, City departments have spent time working with SEDC to figure out SEDC's priorities, increasing the time needed to complete the permitting and planning processes.

We spoke with six developers, in part to gain further insight into the extent to which SEDC develops and communicates agency-wide strategic goals. Their comments echoed the same concerns as City officials, although they were focused more on the specific projects they were involved with rather than how SEDC functions across all projects. Three told us, for example, that SEDC could improve its understanding of how the City approval processes work and that this might reduce the amount of time it takes to obtain City approval on projects. All developers explained said the consequences of even minor delays are costly: time is money and the more time it takes to shepherd a project through the planning and permitting processes, the more money the project will ultimately cost to develop. Two developers also said that they did not think SEDC's vision of a particular project was well thought out at the start of the project and this caused delays throughout the development process. (One developer, however, had complimented SEDC for clearly articulating the goals of the project from the start.) Organization-wide strategic planning could help address these concerns and reduce delays through clarifying processes, redevelopment goals, and priorities on a regular basis with City Planning and Development Services officials.

SEDC does not routinely report on all of its performance measures

Another key component of strategic planning is performance measurement. Performance measures are measures used to determine the extent to which an agency is achieving its goals. Performance measures at the strategic plan level should be agency-wide to determine how well SEDC is performing as measured against its strategic plan. The 2007 performance review of SEDC addressed whether or not SEDC had accomplished the goals stated in its redevelopment and implementation plans for each project area. While the report did not recommend that SEDC engage in strategic planning, the report did identify goals within each redevelopment plan where SEDC should focus its efforts because adequate progress had not been made toward these goals.

The SEDC President identified three performance measures for SEDC. These are job creation, growth in the tax increment, and the successful issuance of tax allocation bonds. According to the best practices, developing performance measures should be done in conjunction with, not outside of, strategic planning. It is difficult to determine if they are the 'best' or 'only' performance measures that it should be using because SEDC has not undertaken comprehensive strategic planning.

Nonetheless, the measures that the President identified are viable performance measures because they meet best practice criteria. Performance measures should be specific, measurable, attainable, reliable, and time-bound. Because all three of these measures can be quantified on a yearly basis, they meet these criteria. In addition, encouraging job creation is a stated goal of redevelopment agencies in California law, and a reasonable criterion against which to measure SEDC achievements. Increases in the property tax increment are also a reasonable measure because it is expected that the value of property would increase as redevelopment activities take place within SEDC's sphere of influence. In each of these areas, SEDC has made notable accomplishments. For job creation, SEDC created about 4,426 jobs within five developments between January 2004 through late-2007. For tax increment, SEDC received a 30 percent increase in funds because of growth in total assessed value of property located in 21 project/sub areas. The growth of total assessed value of property within SEDC sphere of influence ranged from -1 percent to 143 percent.

Finally, successful issuance of tax allocation bonds is also a reasonable measure of performance, indicating that the financial markets believe SEDC's planned redevelopment activities will translate into increased tax increment over the long-term and create the necessary revenue to pay back the bonds that paid for the redevelopment activities carried out in the short-term. Tax allocation bonds issuances by SEDC averaged about \$10.3 million in 1995 that increased to \$34.9 million in 2007.¹³

Except for job creation, SEDC does not regularly or comprehensively report on its progress toward these measures. For the businesses that are located within the project areas as a result of specific development projects, each quarter a SEDC staff person collects job creation data through a survey. The survey collects data from businesses or the developer of the site on the number of jobs created and the characteristics of the employees holding those positions. Developers in the development agreement with the City Redevelopment Agency agreement negotiated by SEDC, require that businesses provide this information to SEDC after completion of the project. The characteristics reported include type of position held (skilled, semi-skilled, professional, technical, administration or other); whether or not the employee is a resident of Southeastern San Diego; and the employee's ethnicity (reported as percentage or employees considered ethnic). SEDC management presents these employment statistics each quarter in a written report to the SEDC Board for informational purposes; SEDC presented this written report to the Board for all quarters between FY 2004-05 and FY 2006-07. However, there is no other distribution of this information outside SEDC. Upon subsequent Board presentations, the report is available to the public and published on the SEDC website under the date of the Board of

¹³ Data on performance measures was obtained from a performance review report issued by Keyser Marston Associates or from Board reports on job creation.

Director's meeting. To find the report, a visitor must search through the meetings to locate the quarterly employment reports; there is no comprehensive annual report.

SEDC Needs a Fully-Developed Project Management Process

Summary of results

SEDC does not have a comprehensive manual or guide that documents all of the procedures that it uses for managing its redevelopment projects.¹⁴ The City Redevelopment Agency also has not set any requirements for the project management process for SEDC and SEDC's operating agreement with the City does not specify requirements for the project management process. In lieu of such a formal project management process, SEDC staff said they primarily rely on the President's direction to plan and execute redevelopment activities and an informal project management process is in place. While this approach mirrors some project management best practices, it does not take into account others. Lack of a formal and comprehensive project management process may contribute to some of the coordination concerns and challenges at SEDC that City officials and developers mentioned related to SEDC projects. Another project management best practice that SEDC does not use is the development of a project plan, prior to the start of each project, that describes the implementation procedures, or alternatively, a step-by-step implementation plan. Yet another best practice SEDC has not incorporated is the evaluation of completed projects to determine the extent to which its procedures worked and could work for current or future projects.

SEDC does not have a formal project management process

Project management is the process by which an organization ensures its identified objectives are accomplished within budget and on time. Organizations use project management to ensure the success of organizational initiatives. Project management often becomes the focus when an organization fails to accomplish its objectives, or accomplishes its objectives over-budget and/or after lengthy delays, or when concerns are raised over the transparency of operations. Proactive management used to build on success and avoid project delays is a best practice identified by a 2006 report that examined best practices across redevelopment agencies in several cities, and recommended reviewing past successes and failures to adjust project management procedures and to determine the level of resources needed to accomplish future projects.

Many models for formal project management processes have been developed but the processes all contain common elements to ensure objectives are met on time and within budget. For example, a fundamental element of any project management process is documentation of standard procedures that describe the entire project management cycle from project planning through project closure and evaluation.

While the precise steps may vary from industry to industry, all project management processes include planning, implementation, and evaluation stages. The planning stage involves identifying the need and defining the project, which includes determining a budget and timeline

¹⁴ This finding is similar to one noted in a 2006 review of the City's Redevelopment Division's project management which found a "relative lack of specific written standards, procedures, and criteria to guide the Agency in its day-to-day activities, including financial underwriting, public outreach, records management, and internal evaluation."

for the project; assembling the team, which includes identification of who will participate and clearly defining each person's role and expertise; and identifying and mitigating risks to success of the project. This stage also requires the establishment of performance metrics for the project team to use during the implementation and evaluation stages to determine progress toward the project objective. The implementation stage involves monitoring work as it is being performed and often involves monitoring contractor performance. The evaluation stage takes place after the project is completed to determine lessons learned so that leaders may incorporate these into the project management procedures; discussion and documentation of how completion of this project helps the organization to achieve its goals; and assessment of individual performance.

SEDC does not have comprehensive and documented project management policies and procedures. A best practice is to describe, in writing, the general process by which an organization operates. This is different from a detailed, step-by-step description of how to perform certain tasks (referred to as a desk manual). A comprehensive description of the project management process identifies key decision makers, roles and responsibilities, and critical decision points. The project management process should be general enough to apply to all activities performed by the organization.

The City Redevelopment Agency also has not set any requirements for the project management process for SEDC and SEDC's operating agreement with the City does not specify requirements for the project management process. SEDC has, instead, developed and published policies and procedures in its Policies and Procedures Manual and Administrative Guidelines on the use and selection of contractor and property development, which are good starting points for developing formal and comprehensive project management policies and procedures. The documentation of these policies and procedures helps to provide transparency to SEDC operations and set expectations for those wanting to do business with SEDC or monitor its activities. These manuals also provide reference for staff performing the activities necessary to accomplish the project's objectives. However, we identified weaknesses in the contract policy and procedures and to the proposal policy. For example, the contract policy does not address monitoring of contracts once established. According to the SEDC President, oversight responsibility is delegated to the staff person in charge of the project where the services are being provided. Since some contractors provide legal or technical support to multiple projects, responsibility for contract oversight transfers among staff persons. Further, SEDC does not have a policy for periodic review of contracts, but in practice, the President assesses the performance of the contractor when the contract expires or is amended. In another example, the proposal policy does not clearly articulate when SEDC should obtain a request for proposal or qualifications (RFP/RFQ) for the disposition of property.

According to SEDC staff, the President designates who will manage a project, tells that individual where to start with the project and outlines the project's primary tasks and objectives. The President also closely supervises the work of staff by meeting with individual staff at least weekly to discuss their assigned projects. The primary tool used by the President for monitoring task accomplishment is called the Project Status Report. The Project Status Report identifies the task, responsible staff member, and deadline for completion. At the weekly meetings, the President reviews the tasks accomplished related to a project's objectives, sets and monitors timelines, and further identifies individual responsibilities for each project. Especially during the

implementation stage, these tools allow the President to measure productivity to determine the extent to which deliverables are being met and where a staff person may need to devote extra attention because of unmet deliverables. However, the Project Status Report is not a suitable replacement for a project plan, which identifies all the tasks to be implemented, a comprehensive timeline for completion of these tasks, and identifies the roles and responsibilities of everyone involved in the project, such as consultants and City staff. This is an important step in the project management process because it sets the baselines from which operational performance can be measured. She also monitors staff work on projects through reviewing staff-prepared quarterly accomplishment reports called 30-60-90 Reports, although the primary purpose of this report is to evaluate individual performance. Neither staff nor the President said that time was regularly allocated for evaluation at the completion of a project.

The President's close supervision of staff is consistent with best project management practices because it does allow SEDC a great deal of flexibility in the way it manages projects. Flexibility in the process is needed because of the wide-range of redevelopment activities performed by SEDC unlike some other government agencies. Although some tailoring of project management to the needs of the specific project is necessary, it can also leave an organization vulnerable to inefficiencies such as delays or cost overruns. Also, stakeholders may not know of, are confused by, or disagree with, the project management approach that SEDC plans to take or is taking. This can also cause delays, missteps or perceptions that SEDC is ineffectual, as cited by some of those stakeholders we interviewed. Additionally, SEDC's Project Coordinators collectively expressed a desire for more direction from a manager. They reported that such a person was needed to help develop efficient strategies for handling projects, to assist in on-the-job training, and to make quick decisions about projects when needed. Under the current structure, these duties fall to the President, but because the President has a lot of other priorities on her plate, she is sometimes unable to respond in a timely manner. This in turn, according to the Project Coordinators, can prevent projects from moving along at a rapid pace. Developers and City officials also expressed concerns about slow progress on some projects and the fact that all decisions, including those that might be considered appropriate for a Project Coordinator to decide, are made by the President. One official attributed these concerns to procedures not being clearly spelled out and SEDC's inconsistent use of procedures. Another official said that these concerns result when SEDC chooses to move projects in permitted, but unconventional ways. Several developers talked more generally about how SEDC's approach to the planning and permitting processes has delayed City approval and has resulted in the developers losing resources for their specific projects. All of these concerns could partially be addressed through SEDC documenting and expanding its project management policies and procedures. Such negative repercussions may partly be alleviated through comprehensive, documented project management policies and procedures.

SEDC's project management process is missing key elements

Having a central and accessible repository of organizational history as it relates to project management is also considered a best practice. A 2006 review of the City redevelopment division's operations identified centralized record keeping as a best practice. The report recommended maintenance of standardized project records to allow smooth transitions when

staffing changes occur. SEDC's files include both paper and electronic records and the maintenance of both hard copy and electronic copy of important documents is also considered a best practice. Although an unwritten policy, all SEDC staff interviewed said it was SEDC policy that the original copy of all project-related documents were kept in the SEDC file room and electronic copies of these documents were also created and kept in a central electronic file for periodic reference. SEDC also maintains an index of these files. While we noted some inconsistencies in SEDC record-keeping practices, these inconsistencies are not uncommon among governmental agencies. One area of weakness we identified was that SEDC did not appear to have a formal records management policy and specific guidelines for which records should be included in the project files.

Another project management best practice that SEDC does not use is the development of a project plan, prior to the start of each project, that describes the implementation procedures, or alternatively, a step-by-step implementation plan. Neither staff nor the President said that they developed such plans for SEDC projects. As previously reported above, however, the President does prepare Project Status Reports which consist of project objectives, tasks, and milestones but the Project Status Report is not an adequate substitute. The Project Status Report is a snapshot of all ongoing projects at a certain point in time and does not list all of the implementation steps for each ongoing project. And while the President and staff said that once development agreements had been entered into and implementation plans developed as a part of these agreements, these agreements are not adequate substitutes for a project plan because the agreement does not account for all the milestones that SEDC must meet in order to accomplish the project objective. For example, the implementation plan for the agreement does not cover the negotiation of the agreement and other activities that must be performed by SEDC, such as presentations to community groups and obtaining approvals from the City.

Yet another best practice that SEDC has not incorporated is the evaluation of completed projects to determine the extent to which its procedures worked and could work for current or future projects. While staff refer to past project management procedures, without analyzing what worked and what did not upon the completion of a project, SEDC cannot routinely identify weaknesses in its project management strategies that could lead to mistakes or repeated use of inefficient or ineffective strategies in the future. In addition to internal evaluation of project management, obtaining feedback from other stakeholders in the project – such as consultants, developers and members of the development community – is also considered a best practice. Organizations that solicit feedback from their stakeholders typically use a short form that asks for specific comments about the organization's execution of its project management process. This information can also be used to correct misperceptions about the role of SEDC in the redevelopment process, such as a concern cited by SEDC managers and staff that stakeholders have the expectation that SEDC has more power over monies and approvals than it does.

Finally, another best practice is routine communication of project status to stakeholders and other interested parties. The California Redevelopment Association's (CRA) recommends that "a redevelopment agency should regularly and accurately inform its community and state legislative representatives of the progress and benefits of agency activities in pursuit of local economic development." The CRA also recommends as a best management practice, "redevelopment activity should be undertaken with due regard for its impact on other local public sector entities

and the services they provide.” Improved inter-departmental coordination and communication was also a recommendation made to the City redevelopment division in a 2006 review of its operations. Communication of the current status of its activities is generally limited to oral briefings and primarily performed by the President when requested. Moreover, we found that SEDC does not routinely brief the Board of Directors on its projects unless it is seeking required Board approval for a specific action.¹⁵ One justification for broadly communicating about the status of ongoing projects is that the more people who are intimately familiar with a project’s requirements and action plans, the less cause there is for a misstep since broad access increases the chance of catching a potential problem that a project manager may have missed. In addition, performing ongoing communication about operations creates transparency.

SEDC does not have a system for measuring project management performance

A key component to tracking project management performance is to establish performance measures that answer the following questions, at a minimum: Was this project completed on time? Was it accomplished within budget? Was the objective accomplished? A frequently-used starting point for developing these measures is to define the critical milestones of the general project management process. From these milestones, performance measures can be developed to monitor an organization’s progress toward accomplishment of the milestones. While the establishment of performance measures typically involves participation from everyone involved in the project plan (managers, staff, consultants) and requires additional time and effort, once established, monitoring project management performance becomes a less resource intensive but critical part of the project management process.

SEDC has not created a database or other system to collect information on whether or not projects are completed on time, within budget, and whether or not the objectives of the project are met. While the President uses the Project Status Report to monitor the current status of its activities on a weekly basis, and the Finance Division monitors compliance with the approved budget on a monthly basis, we could not determine SEDC’s overall performance on project management because data were not readily available on whether or not milestones were met on-time and within budget. We could also not determine the extent to which those milestones were adjusted throughout the project. Also, because SEDC has not defined its project management process and does not require records to be kept that would document critical decision points for projects (such as determination of consultant need), we did not attempt to assess SEDC performance for a subset of its activities.

SEDC does not have a system for tracking project management performance, in part because its process is informal and each stage is directed by the President. Systematic tracking of project management performance is important in order to identify inefficiencies and areas where SEDC

¹⁵ In our review of the minutes from the Board meetings during the audit period, we found only one agenda item where SEDC management provided an update on its activities. Further, the President’s report, as recorded in the minutes, focused more on upcoming events than on including regular updates on project management performance or on the status of ongoing projects. Also, neither the Chair of the Projects and Development Committee nor a designated SEDC manager or staff person reported regularly to the full Board on the information discussed and presented at the Committee meetings.

is not being effective in its operations on a regular basis and for creating an organizational culture of continuous improvement. In the 2006 evaluation of the City redevelopment division, the authors identified this as an area of weakness and recommended implementation of “consistent procedures and methodologies for measuring project and program success.” The report also recommended creation of an “adequate data collection and consistent project reporting system.”

SEDC Communication Can Improve

Summary of results

SEDC management presents the Board of Directors the minimum amount of information needed to make decisions, and in other instances does not provide the information it needs to make fully informed decisions. However, it is difficult to fully assess the adequacy of SEDC’s communication with its Board because there are few documented requirements that specify the type or amount of information that SEDC managers must provide to its Board of Directors. SEDC’s operating agreement, policies and procedures manuals and the Board of Director By-laws do not outline the types and amount of information SEDC management should provide the Board of Directors. To determine what types and the amount of information SEDC management provides to the Board of Directors, we reviewed all of the monthly Board meeting minutes, agendas, and staffing reports over the course of the audit period as well as the content available on Board Committee meetings. We also spoke with six members of SEDC’s Board of Directors and they provided mixed reviews on their satisfaction with SEDC communication. We found some troubling trends, however, such as cancellation of more than one-third of the monthly Board meetings between FY 2003-04 and FY 2006-07, which reduces the number of opportunities for SEDC management to communicate with the Board and vice versa.

SEDC has few communication requirements

Our review of the SEDC’s operating agreement, policies and procedures, Board By-Laws, and CRA, did not uncover any general regulations that describe the amount and types of information that SEDC management must provide to its Board. However, these policies and laws do necessitate the preparation and provision of information by SEDC to the City Redevelopment Agency, all of which could also be presented to the SEDC Board of Directors for informational purposes, such as the monthly income and expense statements. This information would expand SEDC’s interaction with the Board of Directors and provide opportunities to discuss SEDC operations beyond its annual consideration of the budget.

The Operating Agreement between SEDC and the City dictates the structure of SEDC’s Board, but this agreement again does not address in any significant way the type of communication that SEDC management is required to have with this Board.¹⁶ Neither do the by-laws adopted by the Board of Directors. The operating agreement also requires that SEDC provide the City Redevelopment Agency with the following three pieces of information: (1) an annual budget by

¹⁶ The only exception to this is that the Operating Agreement requires that SEDC distribute an annual financial report within 120 days of the close of the fiscal year to Board members and City officials.

March 15th of each year; (2) a monthly income and expense statements by the 15th of each month; and (3) an annual financial report within 120 days of the close of the fiscal year. Only the budget requires Board approval before submittal to the City redevelopment agency. In our review of Board meeting agendas and minutes, we found that the Board of Directors had approved (and SEDC management prepared and presented) an annual budget for each year's review. Further, SEDC prepared, and its managers said it had presented, its audited financial statements to the Board (although the presentation was not a separate agenda item but noted in the President's report). The Director of Finance, who is responsible for preparation of the monthly income and expense statements, said that while the President approves these statements before submittal to the City, they are not presented to the Board of Directors. Our review verified that monthly income and expense statements were not presented at the monthly Board meetings.

SEDC's Policies and Procedures Manual contains two documented requirements about how SEDC should communicate with its Board. The first one requires that the President disclose consultant contracts under \$50,000 at monthly Board meetings. SEDC's failure to comply with this requirement is discussed later in the report. The second requires that the SEDC Board approve SEDC's annual proposed budget prior to SEDC submitting this budget to the city by March 15th of each year. Although the Board has approved the budget for each year of the audit period, it has always done so after March 31st. In all three years, SEDC Board meetings to consider the budget were not held prior to March 15. The Director of Finance explained the City Redevelopment Agency has not enforced nor punished SEDC for submission of its budget after this date.

We also reviewed CRA for information provision requirements. It is important to note that the Brown Act requires that local legislative bodies hold meetings in open forums, but does not state the type of information that should be conveyed at these meetings. The CRA is not only silent as to a redevelopment agency's communication with its board, but it gives local Redevelopment Agencies the flexibility to design their own organizational structure, including the make-up of Boards. The CRA does contain specific reporting requirements for redevelopment agencies, however. One such requirement is that redevelopment agencies annually submit information about their finances and activities to the State Controller. We did not assess SEDC compliance with this requirement because the City Redevelopment Agency prepares and submits these reports to the State on behalf of all three administering entities.

Information to SEDC Board is Limited to Action-oriented agenda items

At the monthly Board of Directors meetings, SEDC management and the Board discuss items that are presented, for the most part, for action. For each agenda item, SEDC staff prepares a written report that is approved by the President and assists her at the Board meetings with the agenda items.

Seventy-one of the eighty-six agenda items presented by SEDC management required Board approval for SEDC action. Agenda items requesting Board action most often requested approval of development agreements (which also require approval by the City Redevelopment Agency);

consultant contracts or amendments to existing contracts; creation and amendments to redevelopment plans for project areas; property acquisition and disposition; and issuance of tax allocation bonds. Of the remaining agenda items presented for information purposes, almost all (12 of 15) included the quarterly reports prepared on job creation as a result of specific SEDC developments. The other three informational agenda items provided information about a public art project for Valencia Business Park; an oral presentation on the current status of projects within the Central Imperial project area and the FY 2006-07 bond issuance; and the concept drawings for a building within a proposed development. It is unclear from the minutes whether or not these presentations were in response to a specific request from the Board, initiated by SEDC management, or both.

We also found that the only regular management report on SEDC's financial status provided to the entire Board of Director was the annual budget. While SEDC management said it had occasionally presented financial information to the Board of Directors and its Committees, only one incident of SEDC management's presentation of the audited financial statements for FY 2005-06 was recorded in the minutes for the President's report at the September 27, 2006 Board meeting. We verified that the financial statements were presented for FYs 2004-05 and 2006-07, but they were not documented in the minutes. Our review of the minutes for the Board meetings also found that the President's report did not regularly include an update on the organization's financial status. SEDC managers said that even though other financial information might not be regularly reported to the Board, its records were available for Board member inspection and they would respond to any inquiries made by SEDC Board members.

SEDC was consistent in the amount of information it presented to its Board of Directors and the information contained within the staff reports to the Board. Although the SEDC's policies and procedures manuals do not specify the information to be included in staff reports (only the administrative process for approval), and there are no other written guidelines regarding the contents of the staff report, we did note that staff use a standardized form for preparation of the report. The sections include: a summary section with a recommended action for the Board (if an action-item); a background section that typically refers to previous Board actions; a discussion of the item (identifies the purpose for Board action); and a conclusion (in one example, this section included a one-sentence discussion of how the agenda item relates to broader SEDC redevelopment goals and objectives). All staff reports are officially sent to the Board from the SEDC President and sometimes co-authored by individual SEDC staff that helped to prepare the report. With one exception, in our review of Board meeting agendas and minutes from the audit period, we found that SEDC management had presented a staff report to the Board for each agenda item over the audit period. We could verify that all meeting agendas, associated staff reports, and minutes were included in the records; however, we could not verify that a staff report on quarterly job creation (for October of 2004) was presented. Two of the 15 agenda items presented for informational purposes also were not accompanied by a staff report and the minutes note that these were oral presentations only.

Many SEDC Board of Director meetings were cancelled

SEDC primarily communicates with its Board through monthly Board meetings. The Brown Act generally requires that all communications among Board members take place in open forums to prevent backroom decision-making.

To determine the frequency of communication between the SEDC Board and the SEDC, we reviewed all of the monthly Board meeting minutes, agendas, and staffing reports over the course of the audit period as well as obtained available information on Board Sub-Committee meetings. We found that one-third of SEDC Board meetings of the scheduled Board meetings were not held during the audit period. Of the 36 monthly Board meetings that SEDC should have held during the audit period, 23 or (64 percent) were actually held and 13 (or 36 percent) were cancelled. The longest period of time in which no Board meeting was held was two months. This two-month hiatus occurred a total of three times during the audit period (from June through July in FYs 2004-05 and 2005-06 and from November through December in FY 2004-05). The fewer the Board meetings held, the fewer the opportunities for SEDC management to present information to the Board and for the Board to discuss this information. And because the Board meetings are one of the primary methods used by SEDC to distribute information about its operations to the public, the fewer the meetings, the fewer opportunities for the public to obtain information about SEDC. SEDC staff said the meeting cancellations were due to either a lack of a quorum among the Board members or determination by SEDC management that there were an insufficient number of agenda items for the Board's consideration, and thus no need to meet that would have required staff overtime. We could not determine other reasons for meeting cancellation because SEDC does not include this information in the records of the Board meetings.

The SEDC Board also has three Committees and we found that these Committees met infrequently during the audit period. The Projects and Development Sub-Committee serves as a recommending body to the Board of Directors on development projects and land use issues. This committee is composed of four members and it meets on an as-needed basis. This committee met five times during the course of the audit period, FY 2004-05 through FY 2007-08. The Intergovernmental Sub-Committee encourages dialogue and collaboration with outside entities, such as the San Diego Chamber of Commerce and the San Diego Housing Commission. This committee has three members and is supposed to meet bi-monthly. This committee was reactivated in 2007 and met twice. The Personnel and Budget Sub-Committee serves as a recommending body to the Board of Directors on SEDC issues related to personnel, financial status, and budgets. It is required to meet quarterly. The last meeting was in 2006. SEDC had a budget worksheet meeting in April 2008 with their full Board which SEDC reported that it met the requirements of the Personnel and Budget Sub-Committee.

As the principal opportunity for SEDC management to present information to the SEDC Board, and to comply with the requirements of the Brown Act that deliberations and discussions among Board members take place in an open forum, it is important that SEDC hold its monthly meetings and SEDC management take full advantage of these meetings to present information to the Board beyond that which is related to action-oriented agenda items. Without them, the Board of Directors is not fulfilling its fiduciary responsibility to provide oversight of the SEDC. SEDC management could report more frequently on the status of current projects and its finances through informational agenda items; SEDC management tracks current activities on the Project

Status Report and through preparation of its monthly income and expenses statements. This information would help the Board of Directors determine the extent to which SEDC has implemented the annual budget and better prepare members for agenda items requiring Board approval. Also, this time could be used to update the Board on actions by the City Redevelopment Agency related to prior SEDC Board actions as well as decisions by the City redevelopment agency's governing body or management that affect SEDC. We found examples of this type of information provision within the minutes of the President's report when the City Redevelopment Agency governing board approved the SEDC budget and development agreements.

Board Members are mixed in their satisfaction with communication from SEDC management

We spoke to six SEDC Board members and three Board members told us that they were generally satisfied with the level of communication between them and SEDC and with the information presented to the Board at its monthly meetings. Moreover, the three Board members told us that if communication occurs outside of these meetings it is usually directly with the President. Staff members also confirmed that they have little to no interaction with other Board members outside of formal presentations made at Board meetings. In contrast, three other Board members told us they were generally dissatisfied with SEDC communication activities. Additionally, the three members disclosed that communication and transparency is not encouraged by the Board Chair or other members. Also, when requests for information are made, there are two common themes provided to the Board of Directors by the SEDC Management: (1) data cannot be provided because it could be a violation of the Brown Act, and (2) SEDC is following the City's or the Redevelopment Agency's procedures. Given concerns by some of the Board members, several of them had made requests to add more detail about the proceedings of SEDC Board meetings and specifically documenting Board member concerns and issues raised about SEDC's budget and other issues. While none of them formally reported these concerns to a higher level, such as the RDA or to the City Council, we found that SEDC may not provide sufficient education to ensure that Board members fully know of their oversight responsibilities. Three of the SEDC Board members voiced concern that additional training was needed on their role and responsibilities as Board members. SEDC currently provides ethics and Brown Act Training.

We evaluated how feedback from community planning groups were conveyed to SEDC Board members. Our review of staff reports submitted to the SEDC Board of Directors provided limited or no information about discussions or information provided by those groups. Some Board members indicated that members of community planning groups would attend Board meetings to provide their input and others said they would like to see special sections of staff reports devoted to feedback received from external stakeholders. The SEDC President explained that information is received from community planning groups only when specific projects are planned in their immediate communities. Without receiving feedback from the entire SEDC sphere of influence, it is difficult for the SEDC Board of Directors to evaluate the full impact of a specific project.

Finally, offering public education about redevelopment and mediating community disputes are considered some of the best practices for public involvement and communications as identified

in the 2006 evaluation of the City's redevelopment division.¹⁷ SEDC performs many community and public outreach activities to better the community's understanding of the role and responsibilities of the organization, as well as to discuss current activities. These include free monthly bus tours of the SEDC sphere of influence and SEDC sponsorship of periodic forums and events to build community spirit and to educate current and future property and business owners (such as first time homebuyers' workshops and annual entrepreneur academy). SEDC also helps to mediate disputes in the community, such as through its "hey neighbor" campaign that provides a tool for neighbors to identify and address "blighting" influences within their own communities. These efforts could be improved by development of a written communication policy.¹⁸ For example, while SEDC said it is a policy that all external inquiries are first directed to the President and mostly addressed by the President, this policy is also unwritten.

SEDC's role, powers, and relationship
to the City are commonly misunderstood

SEDC managers and staff said that SEDC is often misunderstood. SEDC managers said that developers, residents, businesses, reporters, and other interested parties often believe that SEDC has powers that it does not. For example, many managers said that people often do not understand that the City Redevelopment Agency must approve the expenditure of redevelopment funds for the purchase of property and that SEDC cannot act unilaterally to acquire property. Also, SEDC's power to approve development projects is often misunderstood because unlike the Center City Development Corporation, it cannot issue permits for development and that its role is limited to assisting developers with the application and approval process administered by the Department of Development Services. These misunderstandings noted by SEDC were often reflected during our interactions with members of the development community. Further, in the course of our fieldwork, staff from the City and SEDC said that they did not know exactly the relationships and powers of each of the three administrative entities.

Given these misunderstandings, there is a need for the City Redevelopment Agency to better educate the development community and residents of project areas about its organizational structure and delegation of powers to the three administrative entities: City Redevelopment Division, Center City Development Corporation, and SEDC.

¹⁷ The 2006 report also identified a number of best practices related to the interaction of a redevelopment agency and the project area committees (PACs) established to advise the agency on its plans. We did not evaluate the level of information provided by SEDC to its PACs because this was beyond the scope of the audit requirements.

¹⁸ The Community Relations Manager said SEDC is in the process of developing a comprehensive strategy.

SEDC Generally Followed Property Acquisition Processes

Summary of results

When acquiring real estate assets, SEDC is required to follow provisions contained in the California Health and Safety Code as well as comply with local processes, specific to the City's three redevelopment agencies. During FYs 2005 - 07, SEDC had multiple project areas. For the purpose of our review, we considered for review only project areas in which real estate acquisitions were completed, thus resulting in our exclusion of those project area(s) where acquisitions had yet to occur. Specifically, we excluded the Valencia Business Park from our review because, while SEDC awarded a contract during our review period, no actual acquisitions occurred due to the extenuating circumstances surrounding the contract. During our review period, there was only one project area where a completed acquisition occurred, called the Hilltop/Euclid acquisition.

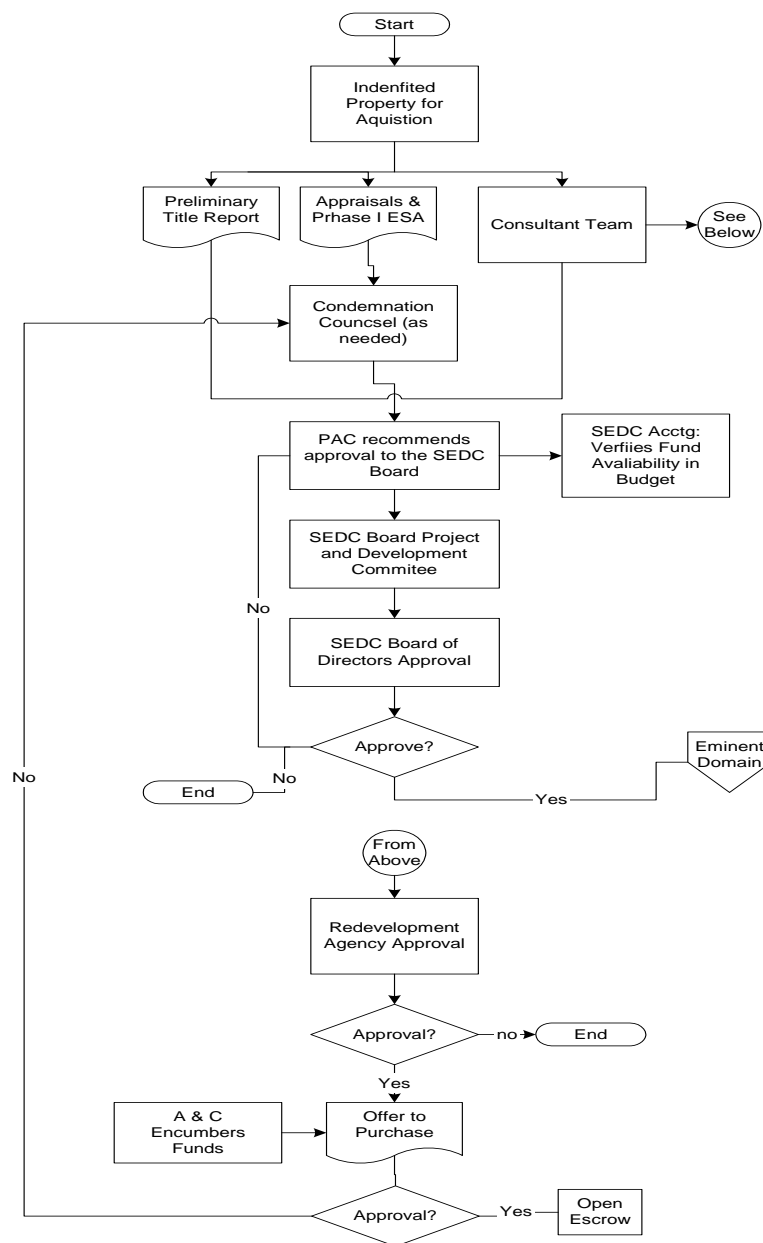
We found that SEDC complied with both California law and its own processes in the Hilltop/Euclid acquisition. SEDC's acquisition policy could be improved to create a better audit trail of the acquisition and make the process more transparent by clearly specifying in the procedures how often and at what stages SEDC management should go to its Board and the City redevelopment agency for a subsequent review of a proposed purchase. We also found that SEDC did not issue a request for proposal (RFP) for the development of the Hilltop/Euclid site. Although this appears reasonable, transparency concerns point to the need for SEDC's disposition of property policy to specify when SEDC should use Request for Proposals and when such use is not required.

SEDC generally complies with provisions in the California Health and Safety Code and its internal acquisition processes

The California Health and Safety Code (Sections 33392 through 33397) details specific requirements that redevelopment agencies must follow when acquiring property. Examples include provisions for eminent domain and public notice requirements for the purpose of notifying potential holders of interest in the assets which SEDC is attempting to purchase.

SEDC has documented its internal acquisition and disposition processes of real estate in a series of flow charts that were prepared for a city-wide 2006 study known as the Kroll Report. We have provided a summary of these charts¹⁹ in the diagram below. It describes the process beginning with SEDC identifying a property for acquisition and ending with final approval to acquire the property and open escrow. Our review of the purchase support documentation for the Hilltop/Euclid acquisition and interviews with the SEDC President found that SEDC generally followed the acquisition processes documented in the diagram.

¹⁹ Appendix 4 contains the acquisition through disposition processes.



SEDC initiated the Hilltop/Euclid acquisition in 2003 when a developer approached SEDC about working in conjunction with SEDC to develop multi-family low-income housing units in the Hilltop/Euclid area. The developer had acquired purchase options on certain properties (four of the eight properties) within the area and approached SEDC about assisting with acquiring the other properties and developing the area.

In 2003, SEDC presented its Board of Directors with a proposed Exclusive Negotiating Agreement (ENA) between itself and the developer. Also, in 2003 the Central Imperial Project Area Committee (PAC) and Board of Directors approved the Hilltop Drive and Euclid Community Plan initiative. In 2004, per SEDC's acquisition processes, it requested and received approval from the Redevelopment Agency and City Council for \$4 million in funding for the

project site and received approval for the use of the \$4 million from the NOFA²⁰ Executive Loan Committee.

The actual purchases of the eight properties occurred in both 2004 and 2005. In 2005, SEDC presented and had approved its Replacement Housing Plan and Replacement and Relocation Plan by the Redevelopment Agency. Also, in 2005, SEDC made and had approved an additional funding request for \$1.5 million to complete acquisition activities, remove hazardous waste, and for demolition within the project area. SEDC was also able to successfully relocate all residents living on the site. In 2006, SEDC requested and received approval from the Project Area Committee and Board of Directors to terminate the exclusive negotiating agreement (ENA) with the developer due to a contractual default by the developer. SEDC then offered the second developer on the project the opportunity to develop the site, but the developer was non-responsive to the ENA and thus SEDC subsequently had to issue an RFP to obtain a developer for the project. A developer has since been chosen and the project is currently on-going.

Opportunities exist to improve internal acquisition procedures

The Kroll process guidelines are general and do not address the various types of acquisitions or the methods in which the acquisition is initiated, making them open to interpretation. Redevelopment agencies are presented with development opportunities in various ways and identify development opportunities in various manners. Additionally, the ways in which these agencies acquire real estate assets differ greatly depending on the type of development. Because of the various manners in which Redevelopment Agencies conduct development activities, entities need to implement cohesive policies and procedures to guide how activities are to be carried out. Asset acquisition policies need to specifically address the various types of acquisitions and circumstances associated with the acquisitions so that the processes are not open to interpretation, thus providing transparency and reducing the risk of negative public perception.

Without a clear, definitive acquisition policy or guideline and given the low number of acquisitions during the audit period, we were unable to determine whether SEDC's acquisition processes and activities were a matter of concern. However, we were able to determine areas in the Hilltop/Euclid acquisition where SEDC could have taken actions to make its acquisition more transparent to the public. These were:

- SEDC did not issue a Request for Proposal (RFP) to obtain a developer for the Hilltop/Euclid site upon initiation of the project. Instead, SEDC used the same developer that had proposed the project site to SEDC and had allowed SEDC to assume its purchase options on some of the properties. Although this may appear reasonable, the fact that SEDC subsequently had to terminate the ENA with this developer (for reasons unrelated to this project) could have caused public concerns about SEDC not initially going through the RFP process. If SEDC had more definitive acquisition policies and procedures that laid out circumstances in which SEDC should use RFPs, such questioning could be avoided.

²⁰ Notice of Funding Availability (NOFA)

- Prior to the purchase of the individual properties, SEDC did not seek specific approval from its Board or the Redevelopment Agency because SEDC explained that such authorization was granted when the original project plan was approved that appropriated about \$4 million in funding. A subsequent, individual approval of the properties in which SEDC had assumed purchase options may have been redundant since their purchase price was already agreed upon. However, additional approval or at least notification to these entities may have been needed for those properties in which negotiations occurred and purchase prices exceeded the original appraisal estimates provided in the approved project plan and funding request.

In one particular case, we noted that SEDC paid \$150,000 over the appraisal value. However, the original appraisal occurred almost nine months prior to the purchase and conflicted with the independent appraisal that the property owner had, which was almost \$300,000 higher than the original appraisal. Additionally, this purchase along with the other purchases occurred during the housing market boom when prices and values were increasing at rapid rates. We were also informed that SEDC had an independent consultant review the purchase prices and confirmed that SEDC did not pay above fair market value for any of the properties they purchased.

- The SEDC President reported that SEDC does not maintain copies of the independent economic consultant's reports. Upon completion of a real estate purchase, SEDC uses an independent economic consultant to review the purchases and determine whether or not SEDC paid a reasonable price that should not exceed fair market value for the properties. SEDC has not been maintaining these reports either electronically or in hard copy form within the project files. By not maintaining copies of these reports, there is no physical evidence to support SEDC's claims that the purchase prices were fair and not above fair market value for any of the properties purchased, thus possibly resulting in SEDC's claims being questioned. Finally, an independent consultant report should be prepared prior to the purchase of the property.
- SEDC's proposal policy states that the President is responsible for all negotiations dealing with the development of property and the policy describes how SEDC will solicit and respond to proposals for the development of property within its sphere of influence. However, strict adherence to this policy is not required due to differences that may arise with developers, redevelopment goals, proposals, and project areas.

SEDC unprepared if City RDA approves use of eminent domain

The SEDC President said the City Redevelopment Agency has been able to acquire property within its project areas without the use of eminent domain. SEDC said it would continue to pursue this acquisition strategy and not request the City Redevelopment Agency to acquire property on its behalf using its powers of eminent domain. However, it is important to note that the City Redevelopment Agency still retains the power to acquire property using this power within at least one of the SEDC project areas. Also, as fewer vacant and adjacent parcels of land exist for development opportunities, eminent domain might become a more politically and

economically attractive tool for land acquisition in order to make further progress toward the organizational goals stated in the redevelopment plans.

While referenced in the SEDC documentation (Kroll Report) of its land acquisition process, SEDC unlike the City and CCDC has not developed all of the necessary procedures to be able to use eminent domain under CRA in three of its four project areas. For example, California Health and Safety Code 33385 (a) (1) requires that a project area committee of stakeholders be established within a project area where the redevelopment agency maintains the power to use eminent domain. This committee must approve the acquisition prior to the use of eminent domain. SEDC has established a project area committee only in the Central Imperial Project Area although the President said the City redevelopment agency has the ability to use eminent domain in all four of its project areas. Even if SEDC intended to use the tool only as a last resort, the establishment of these committees would likely raise concerns among interested parties that SEDC had plans to use the tool in the near future. Regardless, SEDC should establish these committees to better communicate its intentions to the community whether or not it eventually uses eminent domain.

SEDC Uses Consultants and Other Service Providers for Appropriate Types of Services

The Operating Agreement between the City and SEDC, as well as SEDC's Policy and Procedures Manual, give SEDC management broad authority to determine when and how to use consultants. The Operating Agreement gives SEDC the authority to use consultants by stating that SEDC shall "employ necessary personnel" and "retain, when necessary, appropriate consultants and experts" to provide general management services for the project areas within its sphere of influence and within the current approved budget. Examples of what the Operating Agreement lists as acceptable services to be provided by consultants are real estate appraisals, engineering studies, marketability and feasibility studies, project improvement studies, and legal opinions.

Best practices also recognize that a redevelopment agency may make extensive use of consultant services for a wide range of professional and technical services. The California Debt Advisory Commission's 1997 Recommended Practices report states: "A range of skills is required of RDA staff members and consultants, including real estate development, architecture, public finance, and affordable housing production."

To determine SEDC's goal in the use of consultants and other providers, we compiled a database, based on SEDCs payments to them, for fiscal years 2005 through 2007. We found that SEDC used such individuals to assist with activities directly related to redevelopment projects and programs in the project areas and, to a lesser extent, for performing administrative and support functions. SEDC used consultants and other providers, for example, during property acquisition (title services and appraisals), for property maintenance (asbestos and lead abatement and boarding up windows and doors), for programs to assist homebuyers (workshops and counseling) and to address its information technology needs (computer maintenance and web master services). We found that SEDC uses consultants of professional and technical services for

a wide variety of reasons, which are in-line with what is expected from a redevelopment corporation.

SEDC Should Make its Consultant Selection Process more Transparent

Upon our request, SEDC provided us with a list of the number of contracts for consultant services between FYs 2003-07, and SEDC reported that it had awarded 30 contracts among 12 companies. The contract amounts ranged from \$2,000 to \$200,000. Our analysis of payments to companies for professional and technical services for redevelopment activities during the same time period showed that a total of 87 other companies were paid for services. Total payments ranged from \$100 to \$4.1 million. Some of the companies had to have had contracts with SEDC prior to FY 2003-04, which was outside of our audit period.

SEDC does not adequately justify and document its selection of consultants, which may contribute to an appearance of impropriety about the consultant selection process. SEDC does not provide written justification, or even documentation, when it selects a sole source consultant because it is not required to do so. The SEDC President also does not disclose the existence of consulting and other contracts under \$50,000 for professional and technical services to her Board of Directors at the Board meeting immediately following the execution of such contracts, despite the fact that she is required to do so. The SEDC President said she has rarely used her authority to enter into contracts for under \$50,000 although the data on payments we analyzed indicates that figure represents the majority of companies providing professional and technical services to SEDC, as shown in Table 19.0. The value of the payments for these companies represented about five percent of all payments.

Table 19.0: Distribution of Companies Providing Professional and Technical Services, FYs 2003-07

	Number of Companies	Dollar Amount
Under \$25,000	64	\$446,191
\$25,000 and \$50,000	7	\$212,781
Under \$50,000	71	\$658,971
Over \$50,000	30	\$8,832,438

The President noted that all contracts for services provided to a project area and to be paid from a project area fund require the approval from the City redevelopment agency Executive Director or governing body. However, SEDC is not required to obtain SEDC Board approval for contracts under \$50,000 even if City redevelopment agency approval is required. Further, the President and staff said that the Board has already approved expenditures for these contracts in its approval of the budget. The SEDC policies and procedures manual does not specifically state this interpretation of the Board's approval of the budget under the Contracting Policy.

SEDC Does Not Document Determination of Consultant Need

The SEDC Policies and Procedures Manual states that SEDC can employ consultants to “undertake work beyond the scope of its staff and such work may be of a recurring nature or for specific one-time projects.” Work is considered ‘beyond the scope of staff’ when SEDC does not need the expertise it is looking for in a consultant on a full-time basis; SEDC does not have the required expertise on staff; or SEDC’s need is time-sensitive and current staffing levels would mean a delay in completing the work. The Manual is silent on whether or not SEDC should document the determination of need.

During our interviews with SEDC’s President, she said that SEDC’s use of consultants is consistent with this policy and that SEDC does not use consultants when it has sufficient expertise on staff. Based on our review of payments to consultants during the audit period, SEDC appears to have followed this policy. For example, SEDC obtained the services of a graphic designer when one was not on staff. Also, SEDC policy requires SEDC to analyze whether it needs to use consultants in a given situation or project, but it does not require SEDC to document this ‘determination of need’ and SEDC does not keep a written record of each determination in its files. From an audit perspective, we believe that written documentation justifying determination of need is important so that compliance with its own policies could be determined at a future date. Documentation of decision-making also makes the consultant hiring procedures used by SEDC more transparent, which is important for a public entity.

SEDC Should Document Consultant Selection as Sole Source or Competitive

SEDC’s consultant hiring policy is stated in the SEDC Policies and Procedures Manual. SEDC’s consultant hiring policy requires that SEDC use a competitive pool made up of at least three consultants. It also states that this competitive process need not be followed when unique expertise is required and the number of qualified consultants is limited. In this situation, SEDC can select a ‘sole source’ consultant. We sought to determine from SEDC files the extent to which SEDC selected consultants competitively versus non-competitively, but were unable to do so because SEDC does not document its consultant selection practices in its files.

Also, from an audit perspective, we believe that written documentation justifying sole source selection of a consultant is important. It would require SEDC to document its research on whether or not multiple consultants were available to bid on a given contract and, through this, would make SEDCs consultant selection process more transparent. Such transparency is especially important given for effective procurement practices.

SEDC is Required to Disclose All Consultant and Other Provider Contracts to its Board

SEDC is required to disclose all contracts that it enters into with consultants and other providers of technical and professional services to its Board of Directors, according to its Policies and Procedures Manual. For contracts over \$50,000 this disclosure happens as a matter of course because, according to SEDC policies and procedures, its Board of Directors is required to approve all contracts over \$50,000 prior to SEDC entering into the contract. Board approval is sought by SEDC management by placing an agenda item, accompanied by a staff report, at a monthly Board meeting. Since the Manual does not specify what information must be disclosed by SEDC management to its Board when seeking approval of a contract, the SEDC President is responsible for deciding what information to provide in the staff report. Staff reports that requested Board approval for a contract from the audit period that we reviewed always contained the name of the contractor, dollar amount of the contract, and descriptions of the service to be provided and prior services rendered by the contractor.

SEDC Board of Directors' prior approval is not required for contracts under \$50,000; however. SEDC policy states that the President of SEDC can enter into contracts for professional and technical services under \$50,000 as long as they apply to services contained within SEDC's budget. The President does not need to obtain any additional approval for contracts under \$25,000 and has only to obtain the City RDA Executive Director's²¹ approval for contracts between \$25,000 and \$50,000. It is important to note that SEDC Board approval is not required and is not sought prior to SEDC management obtaining approval from the RDA Executive Director for contracts between \$25,000 and \$50,000 and execution of the contract.

SEDC policy and procedures do require that the SEDC President disclose all contracts under \$50,000 (entered into under the President's authority) to the SEDC Board of Directors at the Board meeting immediately following the execution of a contract. The policies and procedures also require disclosure of the same information for these contracts like that provided for contracts over \$50,000. That is, sufficient information to justify the award of the contract and the competence of the contractor. Again, the Manual does not identify any specific pieces of information requiring disclosure by the President to the Board about the contract, and there is no requirement that the President provide disclosure in writing. The Manual also does not pose any penalty for failing to comply with these policies and procedures.

As shown in Table 17.0, SEDC had 71 companies providing professional and technical services valued at under \$50,000. While we could not verify that contracts were prepared that would trigger disclosure to the SEDC Board, the SEDC President would have had to enter into contracts given the number of companies involved. However, we found no written evidence that the President made the required disclosures to the Board. We reviewed the minutes from the Board of Directors' meetings for fiscal years 2005-2007 and found no evidence in these minutes that the SEDC President formally disclosed these contracts, if contracts were prepared, as required by SEDC policy. It is important to note that the policy does not set a minimum dollar amount for contracts that trigger disclosure, so SEDC compliance with this policy would require formal

²¹ In San Diego, the RDA Executive Director is the Mayor. The process used to obtain this approval is referred to as the 1544 approval process, after the routing form used to obtain signatures from the approving officials.

disclosure to the Board of even contracts for services worth very small dollar amounts. We also interviewed six Board members and they told us that they did not receive separate reports from the President about contracts under \$50,000. We believe that such disclosure is important, in part because SEDC policies and procedures require it, and such disclosure will increase the transparency of SEDC's contractor hiring process because it requires SEDC to justify the award of the contract and competence of the contractor. And although the SEDC Budget allocates funding for specific redevelopment activities, it does not include detailed information about the services to be obtained by contract nor identifies the contractor for services provided under \$50,000. Regular disclosure of this information is also important so that SEDC Board members may accurately identify and disclose any conflicts of interest that they might have, as required by the By-laws for the Board of Directors.

Our examination of information on contracts and letters of agreements awarded to firms providing redevelopment-related services to SEDC showed that SEDC has had contractual relationships with multiple consultants during the time period of our review. Between 2004 and 2007, SEDC had entered into at least two or more contracts or letter agreements with ten of the 12 consultants that SEDC reported that it had engaged in prior redevelopment project-related services, suggesting that SEDC prefers companies that have experience with SEDC that would discourage other companies from bidding on services to the Agency. One vendor, in particular, has had three separate contracts during our audit period to augment SEDC services promoting community awareness, local business participation in redevelopment projects, business development and retention. The vendor was the sole bidder for services. SEDC briefed SEDC Board and explained the vendor had the qualifications to perform the services required because of his prior work performed for SEDC, his knowledge of the community that SEDC serves and his former role as Chief of Staff for a City Council member. SEDC Board members provided mixed information on the role of this particular consultant. Some Board members explained that they did not understand the value that he provided and others explained the vendor's role as providing community outreach. The SEDC President explained that she does not prefer any one vendor over another in the proposal process and will consider firms that demonstrate minimal knowledge of the community.

SECTION III: OTHER ISSUES NEEDING FURTHER REVIEW

- The SEDC President reported donations provided to various nonprofit organizations on behalf of SEDC. The amount of the donations in FY 2007-08 totaled \$14,818 that were variously issued to the California CPA Education Foundation, the Junior YMCA, the NAACP, Justice Overcoming Boundaries, United Way of San Diego, Union of Pan-Asian Communities, Casa Familia, PRSA, and Barrio Station. Upon further review of financial reports, SEDC used its Donation account to pay for professional and technical services of the Agency. The City should review SEDC's Contribution/Donation account activity to ensure the appropriateness of the expenditures.
- In most cases, agencies of SEDC's size hire part-time Human Resources management personnel to administer personnel management functions, such as employee evaluations and to ensure that compliance with hiring and termination policies are met. In the absence of a formal human resources management function, the SEDC President has assumed most of this responsibility with designating some of the responsibilities to the Executive Assistant. SEDC's operating agreement with the City gives the SEDC President complete authority for hiring and firing of its employees. Employees of SEDC are not City employees and thus, are not part of the civil service. Instead, SEDC employees are "at-will" employees of the organization meaning they could be terminated at any time. The City should SEDC's employee termination practices and their adherence to SEDC and Redevelopment Agency policies and procedures. We noted three SEDC employees that left the Agency in FY 2005-06 and were provided severance pay totaling \$30,018 when SEDC's policies did not address severance pay.

CONCLUSIONS

Internally, the extent of operational weaknesses, problems, and other issues that exist at SEDC justify governance and organizational changes. The problems stem, in part, from an outdated operating agreement that had too few requirements to ensure appropriate accountability over operations. The problems also result from processes rooted in the past that have not evolved as standards and practices for business operations changed. Moreover, even when SEDC's operating budget grew, internal controls were not added leaving greater vulnerability on how City loans and tax increment were spent. Given this, there needed to be greater reliance on the City for oversight of these public funds. The internal controls at the City did not always work and when they did work that led to denials for requested salary increases, SEDC circumvented them.

While it would appear that the existing governance structures (e.g., City Council, the City Redevelopment Agency, and the SEDC Board of Directors) were in place to provide additional layers of oversight of the agency, the SEDC Board of Directors had the ultimate authority over the agency. The SEDC Board of Directors could not provide effective oversight because SEDC reduced the Board's ability to do so because there was insufficient transparency of information and of SEDC internal operations to fully and adequately inform key officials at all levels. No matter how well-designed and operated, controls cannot provide absolute assurance that all City and SEDC objectives are met when critical data is systematically omitted. These omissions have circumvented the specific governance structures and other requirements in place, which in turn, provided a substantial and direct financial benefit to SEDC employees that rose to the level of fraud. One of the most troublesome aspects of our review was that SEDC management believed that its practices were acceptable because they were adhering to its operating agreement, or to general budgeting requirements imposed by the City, or to activities consistent with nonprofit agencies.

Externally, SEDC organizational goals in its redevelopment and implementation plans, approved by the City Redevelopment Agency are appropriate given the requirements of CRA. While SEDC has made notable accomplishments in increasing tax increment, employment, and bond issuances, SEDC could benefit from operational improvements regarding redevelopment activities by implementing a formal strategic management process, defining a formal project management process and incorporating best practices in the areas of communication and procurement. SEDC could do more to strengthen its efforts to educate the community and key stakeholders. Increasing the availability of documentation of its project management process and providing regular updates on project status would also help increase the transparency needed.

Successfully addressing the challenges that the SEDC faces in improving efficiency and effectiveness requires new redevelopment leaders who are committed to achieving results, and who integrate performance-based management into the culture and day-to-day activities. SEDC needs leaders capable of effectively managing and developing its human capital by providing the institutional tools, structures, processes, and accountability to achieve these results.

To begin addressing these challenges and at the same time improve redevelopment operations, we outlined 33 recommendations for the City's consideration.

RECOMMENDATIONS

Governance and organizational changes

1. The City should revamp SEDC's governance structure. Options to consider include:
 - (1) amend and update SEDC's operating agreement to include representatives of the City on the SEDC Board, limitations to the SEDC President's authority; specific requirements for holding Board of Director meetings, as well as establishing requirements for SEDC Board of Directors' training, budgeting practices, communication activities, project management, financial management, performance outcomes, and mandating leave utilization; or,
 - (2) integrate/merge SEDC under the direct control of the RDA or integrate SEDC with CCDC depending on the results of the anticipated CCDC study; or,
 - (3) fully operate SEDC as a public agency within the City.
2. The City should require in SEDC's Operating Agreement the position classification of a Chief Financial Officer who reports to the Board of Directors and fill the newly-created position through competitive and open recruitment.
3. The SEDC Board of Directors should approve all salary increases to the SEDC President. Incentive pay increases should be documented in the SEDC contract with the President and directly tied to annual performance evaluations provided by the full Board of Directors.
4. SEDC should fill the Manager of Projects and Development position as soon as possible.
5. SEDC should fill a Vice President of Operations position to help oversee day-to-day operations and be responsible for SEDC's adherence and compliance to internal controls.
6. SEDC should establish a part-time formal Human Resources Manager position to oversee SEDC's recruiting, hiring, staff development and termination activities.
7. SEDC should ensure that its Board of Directors receives all the training necessary to fully perform their fiduciary responsibility of the Agency.

Policies and Procedures

8. SEDC should immediately develop policies and procedures for ensuring proper recordkeeping and storage that include:

- Documentation of Board member opposition to agenda items.
 - Preparation of the Board minutes should be accomplished within specific time-frames, and posted on the Agency's web site.
 - Filing of tape recordings of SEDC Board minutes in locations fully accessible by the public.
9. SEDC should require the reporting of quarterly expenditure reports for professional and technical services to the SEDC Board of Directors that include the types of services provided.
 10. SEDC, in conjunction with the City's Personnel Department, should develop formal procedures for approving pay-outs of accrued leave, including the requirement of the SEDC Board of Director's approval for leave buy-outs of SEDC executive officers.
 11. SEDC should develop policies for expenditure allowances. These policies should define the types of allowable and unallowable expenditures. These policies should be streamlined with the City policies and take into consideration that the money being utilized are public funds and should not be used for non-governmental business.
 12. SEDC should formalize policies and procedures that describe the segregation of duties for the fiscal operations and authorization procedures.
 13. SEDC should amend its merit pay policy and establish maximum award amounts.
 14. SEDC should ensure that the SEDC Board of Directors approves all policies.
 15. SEDC should amend its consultant policy and lower the threshold that would trigger SEDC Board of Director approval for professional and technical services contracts/letters of agreement to \$10,000.
 16. SEDC should eliminate the authority provided to the SEDC President to implement agency policies at her discretion.
 17. The Office of the CFO should review and approve of SEDC's newly-developed fiscal policies and procedures prior to their finalization.

Operational

18. SEDC should discontinue all forms of supplemental income payments to SEDC staff, except for merit pay as described under current policies.
19. SEDC should communicate on a monthly basis, a financial position report to the Board of Directors. This report would show current expenditures as they relate to each budget line item. This would include a report of current financial status as compared to the budget.

20. The new SEDC Chief Financial Officer, in the budget presentation to the Board and supplementary submission to the City, should include a minimum of three years of budget versus actual data for revenues and expenditures, for both project budgets and corporate budgets, including variances. The budget should include detailed and precise information on base salary and other forms of compensation by employee position and estimated overtime.
21. The SEDC Chief Financial Officer should include project goals and accomplishment information by project into the City's budget presentation, which will require SEDC to tie program goals and objectives to their budget.
22. The SEDC Board of Directors should ensure that cost of living increases that are provided to SEDC employees are consistent with City cost of living increases.
23. SEDC should clarify and further develop its real estate acquisition policy. This should include, but not necessarily be limited to, detailing when SEDC should use Request for Proposal and when it should go back to its Board of Directors or the City Redevelopment Agency Board for subsequent approval of acquisitions.
24. SEDC should correlate implementation plan goals with redevelopment plan goals and present the revised documents for formal Board approval
25. Annual work plans should include a timeframe for completion of work plan tasks.
26. Accomplishment reports should link specific accomplishments back to the operational goals in project area work plans and include information on remaining work to be completed.
27. In accordance with best practices, SEDC should develop an agency-wide strategic plan. This process should include City and community outreach to solicit strategic planning feedback.
28. SEDC should ensure the agency-wide strategic plan links to the Mayor's vision for the City.
29. SEDC should make its consultant selection process more transparent by:
 - a. Documenting consultant need in the files, including a justification for selecting a sole source consultant, when such a consultant is used; and
 - b. In accordance with SEDC's policies and procedures, the President should disclose all new consultant contracts, including contract extensions, at the monthly meeting of the Board of Directors.

Other

30. The City should consider examining the feasibility and the extent to which supplemental compensation that was not properly authorized should be reclaimed by the City.

31. The City should determine the full impact of 403B contributions on the City stemming from the supplemental compensation increases.
32. The City's Internal Auditing function should conduct an audit within 18 months to review the status of SEDC's efforts to implement the recommendations contained in this report.
33. The City should examine the appropriateness of SEDC's charitable contribution activities.

APPENDIX 1: Compensation Data

SEDC Compensation Data, FY 2003-04

Position	COLA	Longevity	Holiday	Year End Acknowledgment	Incentive	Total
President	\$11,120	\$0	\$3,500	\$0	\$0	\$14,620
Finance Director	\$6,640	\$0	\$3,500	\$0	\$0	\$10,140
Executive Assistant	\$4,040	\$0	\$2,400	\$0	\$0	\$6,440
Vice President	\$3,920	\$0	\$2,000	\$0	\$0	\$5,920
Administrative Support Coordinator	\$2,920	\$0	\$900	\$0	\$0	\$3,820
Director of Corporate Communications	\$6,648	\$0	\$3,500	\$0	\$0	\$10,148
Community Relations Manager*	\$0	\$0	\$0	\$0	\$0	\$0
Communications Coordinator	\$2,800	\$0	\$900	\$0	\$0	\$3,700
Sr. Accountant II	\$2,480	\$0	\$3,500	\$0	\$0	\$5,980
Sr. Accountant	\$0	\$0	\$0	\$0	\$0	\$0
Accounting Tech	\$3,360	\$0	\$700	\$0	\$0	\$4,060
Staff Accountant	\$0	\$0	\$0	\$0	\$0	\$0
Project Coordinator	\$4,160	\$0	\$700	\$0	\$0	\$4,860
Assistant Project Coordinator	\$2,840	\$0	\$900	\$0	\$0	\$3,740
Research Coordinator	\$0	\$0	\$100	\$0	\$0	\$100
Corporate Receptionist	\$0	\$0	\$100	\$0	\$0	\$100
Clerk / Messenger	\$0	\$0	\$0	\$0	\$0	\$0
Senior Planner	\$0	\$0	\$0	\$0	\$0	\$0
Asst. Community Dev. Corr.	\$0	\$0	\$0	\$0	\$0	\$0
Project Coordinator/Project Manager	\$0	\$0	\$0	\$0	\$0	\$0
Project Coordinator/Project Manager	\$0	\$0	\$0	\$0	\$0	\$0
Administrative Secretary	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	\$50,928	\$0	\$22,700	\$0	\$0	\$73,628

SEDC Compensation Data, FY 2004-05

Position	COLA	Longevity	Holiday	Year End Acknowledgment	Incentive	Total
President	\$11,600	\$0	\$3,800	\$3,100	\$0	\$18,500
Finance Director	\$6,960	\$0	\$3,800	\$3,100	\$0	\$13,860
Executive Assistant	\$4,160	\$0	\$2,600	\$1,100	\$0	\$7,860
Vice President	\$7,840	\$0	\$2,200	\$1,700	\$0	\$11,740
Administrative Support Coordinator	\$3,040	\$0	\$1,100	\$600	\$0	\$4,740
Director of Corporate Communications	\$6,968	\$0	\$3,800	\$2,200	\$0	\$12,968
Community Relations Manager*	\$0	\$0	\$0	\$0	\$0	\$0
Communications Coordinator	\$2,928	\$0	\$1,000	\$500	\$0	\$4,428
Sr. Accountant II	\$0	\$0	\$0	\$0	\$0	\$0
Sr. Accountant	\$4,720	\$0	\$700	\$1,100	\$0	\$6,520
Accounting Tech	\$0	\$0	\$100	\$600	\$0	\$700
Staff Accountant	\$1,680	\$0	\$0	\$0	\$0	\$1,680
Project Coordinator	\$4,288	\$0	\$800	\$800	\$0	\$5,888
Assistant Project Coordinator	\$3,200	\$0	\$1,100	\$800	\$0	\$5,100
Research Coordinator	\$2,400	\$0	\$500	\$400	\$0	\$3,300
Corporate Receptionist	\$1,180	\$0	\$100	\$400	\$0	\$1,680
Clerk / Messenger	\$0	\$0	\$0	\$0	\$0	\$0
Senior Planner	\$0	\$0	\$0	\$0	\$0	\$0
Asst. Community Dev. Corr.	\$0	\$0	\$0	\$0	\$0	\$0
Project Coordinator/Project Manager	\$0	\$0	\$0	\$0	\$0	\$0
Project Coordinator/Project Manager	\$0	\$0	\$0	\$0	\$0	\$0
Administrative Secretary	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	\$60,964	\$0	\$21,600	\$16,400	\$0	\$98,964

SEDC Compensation Data, FY 2005-06

Position	COLA	Longevity	Holiday	Year End Acknowledgement	Incentive	Total
President	\$12,640	\$0	\$4,000	\$16,800	\$0	\$33,440
Finance Director	\$7,600	\$0	\$4,000	\$16,800	\$0	\$28,400
Executive Assistant	\$4,496	\$0	\$2,800	\$6,700	\$0	\$13,996
Vice President	\$8,488	\$0	\$2,500	\$0	\$0	\$10,988
Administrative Support Coordinator	\$3,360	\$0	\$1,300	\$4,600	\$0	\$9,260
Director of Corporate Communications	\$7,608	\$0	\$3,800	\$0	\$0	\$11,408
Community Relations Manager*	\$0	\$0	\$0	\$600	\$0	\$600
Communications Coordinator	\$3,200	\$0	\$1,000	\$0	\$0	\$4,200
Sr. Accountant II	\$0	\$0	\$0	\$0	\$0	\$0
Sr. Accountant	\$5,080	\$0	\$900	\$0	\$0	\$5,980
Accounting Tech	\$3,496	\$0	\$300	\$4,600	\$0	\$8,396
Staff Accountant	\$0	\$0	\$0	\$6,700	\$0	\$6,700
Project Coordinator	\$2,288	\$0	\$1,000	\$0	\$0	\$3,288
Assistant Project Coordinator	\$3,688	\$0	\$1,300	\$5,100	\$0	\$10,088
Research Coordinator	\$0	\$0	\$0	\$0	\$0	\$0
Corporate Receptionist	\$2,456	\$0	\$300	\$600	\$0	\$3,356
Clerk / Messenger	\$0	\$0	\$0	\$0	\$0	\$0
Senior Planner	\$0	\$0	\$0	\$800	\$0	\$800
Asst. Community Dev. Corr.	\$2,600	\$0	\$600	\$3,200	\$0	\$6,400
Project Coordinator/Project Manager	\$0	\$0	\$0	\$0	\$0	\$0
Project Coordinator/Project Manager	\$0	\$0	\$0	\$0	\$0	\$0
Administrative Secretary	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	\$67,000	\$0	\$23,800	\$66,500	\$0	\$157,300

SEDC Compensation Data, FY 2006-07

Position	COLA	Longevity	Holiday	Year End Acknowledgment	Salary Adjustment	Incentive	Total
President	\$13,200	\$0.00	\$10,000	\$52,500	\$7,000	\$0	\$82,700
Finance Director	\$8,000	\$0.00	\$10,000	\$44,300	\$5,000	\$0	\$67,300
Executive Assistant	\$4,676	\$0.00	\$4,500	\$15,400	\$2,248	\$0	\$26,824
Vice President	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Administrative Support Coordinator	\$3,427	\$0	\$2,500	\$8,700	\$0	\$0	\$14,627
Director of Corporate Communications	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Community Relations Manager*	\$5,840	\$0	\$800	\$2,700	\$0	\$0	\$9,340
Communications Coordinator	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sr. Accountant II	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sr. Accountant	\$5,182	\$0	\$2,000	\$0	\$0	\$0	\$7,182
Accounting Tech	\$0	\$0	\$0	\$15,700	\$0	\$0	\$15,700
Staff Accountant	\$3,672	\$0	\$1,200	\$10,500	\$0	\$0	\$15,372
Project Coordinator	\$4,000	\$0	\$3,000	\$13,400	\$0	\$0	\$20,400
Assistant Project Coordinator	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Research Coordinator	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Corporate Receptionist	\$2,489	\$0	\$800	\$2,700	\$0	\$0	\$5,989
Clerk / Messenger	\$0	\$0	\$0	\$800	\$0	\$0	\$800
Senior Planner	\$0	\$0	\$500	\$0	\$0	\$0	\$500
Asst. Community Dev. Corr.	\$2,800	\$0	\$1,200	\$6,500	\$0	\$0	\$10,500
Project Coordinator/Project Manager	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Project Coordinator/Project Manager	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Administrative Secretary	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	\$53,286	\$0	\$36,500	\$173,200	\$14,248	\$0	\$277,234

SEDC Compensation Data, FY 2007-08

Position	COLA	Longevity	Holiday	Year End Acknowledgement	Incentive	Total
President	\$6,880	\$6,000	\$13,428	\$0	\$52,500	\$78,808
Finance Director	\$4,200	\$5,000	\$10,00	\$0	\$44,200	\$63,400
Executive Assistant	\$2,440	\$3,000	\$4,500	\$0	\$14,500	\$24,440
Vice President	\$0	\$0	\$0	\$0	\$0	0
Administrative Support Coordinator	\$1,840	\$1,500	\$2,500	\$0	\$10,400	\$16,240
Director of Corporate Communications	\$0	\$0	\$0	\$0	\$0	\$0
Community Relations Manager*	\$2,920	\$1,000	\$800	\$0	\$3,300	\$8,020
Communications Coordinator	\$0	\$0	\$0	\$0	\$0	\$0
Sr. Accountant II	\$0	\$0	\$0	\$0	\$0	\$0
Sr. Accountant	\$2,760	\$2,500	\$2,000	\$0	\$15,600	\$22,860
Accounting Tech	\$0	\$0	\$0	\$0	\$0	\$0
Staff Accountant	\$1,960	\$1,200	\$1,200	\$0	\$10,400	\$14,760
Project Coordinator	\$2,120	\$2,500	\$3,000	\$0	\$15,600	\$23,220
Assistant Project Coordinator	\$0	\$0	\$0	\$0	\$0	\$0
Research Coordinator	\$0	\$0	\$0	\$0	\$0	\$0
Corporate Receptionist	\$1,352	\$500	\$800	\$0	\$2,300	\$4,952
Clerk / Messenger	\$998	\$200	\$0	\$0	\$0	\$1,198
Senior Planner	\$0	\$0	\$0	\$0	\$0	\$0
Asst. Community Dev. Corr.	\$1,480	\$1,000	\$1,200	\$0	\$3,100	\$6,780
Project Coordinator/Project Manager	\$0	\$200	\$0	\$0	\$0	\$200
Project Coordinator/Project Manager	\$0	\$200	\$0	\$0	\$0	\$200
Administrative Secretary	\$0	\$200	\$0	\$0	\$0	\$200
TOTAL	\$28,950	\$25,000	\$39,428	\$0	\$171,900	\$265,278

APPENDIX 2: Finance Memo Authorizing Car Allowance Increase

Denise Webb

From: Dante Dayacap
Sent: Thursday, July 10, 2003 4:18 PM
To: Denise Webb
Cc: Gib Morton; Kimberly King
Subject: RE: Car Allowance & Retro Pay

Thanks for the information. Now that you gave me the specifics I could now give you a more specific direction.

- Since Mr. Poole approved a retro-active pay adjustment for CYS which includes the car allowance (see the personnel action form dated July 9, 2003) and since the car allowance was approved in the FY 01-02 budget for \$450.00, my hand written correction of \$450.00 should suffice in order to pay CYS for the \$50.00 per month car allowance adjustment. This should be for 12 months @ \$50.00 per month for period July 1, 2001 to June 30, 2002. It is requested that the \$600 car allowance adjustment be done with the next payroll processing (pay period ending July 15, 2003). I will prepare a transmittal memo to CYS regarding her check when issued.

Please let me know if you have other concerns associated with any of the above. If you need further assistance, let me know also.

On another, note, you mentioned this morning, as you recall CYS was paid retro on her base pay starting July 1, 2001 to the effective date of May 1, 2002. You also indicated on a handwritten note today that "all files prior to this on are at our off site storage". I would like more "concrete" supporting documents that we actually paid her retro on her "base salary" as being requested -- which would mean for you to go back and gather or retrieve any pertinent back up information.

Let me know when this task could be completed.

Thanks.

Dante

-----Original Message-----

From: Denise Webb
Sent: Thursday, July 10, 2003 12:27 PM
To: Dante Dayacap
Cc: Gib Morton; Kimberly King
Subject: RE: Car Allowance & Retro Pay

July 10, 2003

Again, reflecting back on our conversation this morning, I did not pay Carolyn an increase of \$50.00 in her car allowance until the beginning of FY 2002-2003 (beginning July 2002) per her personnel action form dated April 9, 2003. Prior to that date, during the FY2001-2002 I was paying her \$400.00 per month or \$200.00 per pay period per her personnel action form dated May 9, 2002. I do not have a personnel action form reflecting an increase in her auto allowance for FY 2001-2002 in her file (beginning July 2001). I do have the copy of your handwritten change of the auto allowance dated July 9, 2003 which you provided me this morning, July 10, 2003. Nothing has been done with that one as of today. As we are dealing with payroll, a very sensitive subject, please be more specific with what exact adjustments you want me to make.

-----Original Message-----

From: Dante Dayacap
Sent: Wednesday, July 09, 2003 11:36 AM
To: Denise Webb
Cc: Gib Morton; Kimberly King
Subject: Car Allowance & Retro Pay
Importance: High

Copies of the Personnel Action forms for CYS were provided to you this morning associated with the above subject. Please confirm that CYS was paid retro to July 1, 2001 per the personnel action form signed by Mr. Poole on May 9, 2002. Additionally, also confirm that CYS was paid \$400.00 per month on her car allowance beginning (retro) July 2001. CYS is entitled to \$450.00 per month on car allowance beginning FY2001 - FY2002 per the approved budget and the personnel action signed by David Poole.

Please make this a priority so that adjustments can be made (if any) in time for the payroll period ending July 15, 2003.

Your help is appreciated. Thank you.

Dante

APPENDIX 3: Letter from SEDC Denying Access to Performance Evaluations



Southeastern
Economic
Development
Corporation

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www.sedcinc.com

August 22, 2008

Via E-Mail and U.S. Mail

Eduardo Luna
City Auditor
Office of the City Auditor
1010 Second Avenue, 14th Floor
San Diego, CA 92101

Dear Mr. Luna:

Re: Request for Access to Performance Evaluations for Expanded Performance Audit of SEDC by the City Council

The purpose of this correspondence is to inform you that the requests for access to the performance evaluations of all employees for the last five years made by your office and Macias Consulting, the audit firm engaged by the City of San Diego, are denied. On August 13, 2008 at a Special Meeting of the Southeastern Economic Development Corporation (SEDC) Board of Directors, by a unanimous vote of those voting, the Board voted that SEDC will not disclose the performance evaluations for any employees to any requestor. SEDC personnel are not employees of the City of San Diego. The operating agreement between the SEDC and the City of San Diego specifies that the SEDC is an independent contractor. Moreover, the operating agreement expressly disclaims the City's responsibility for employment contracts entered into by SEDC. The municipal ordinance provision which became effective on July 8, 2008 does not override the state constitution and statutes or decisional law governing privacy rights and is not retroactive.

Public employees are within the ambit of the state constitutional right of privacy. Cal. Const., art. I, sec. 1. The Public Records Act expressly exempts "personnel, medical, or similar files" of public employees from disclosure. Gov. Code, § 6254, subd. (c). An analogous provision exists in the Brown Act which provides that personnel matters other than salaries may be addressed in closed session. Gov. Code, § 54957, subd. (b)(4). Furthermore, the Brown Act specifically permits a closed session for the "evaluation of performance." Gov. Code, § 54957, subd. (b)(1). Third-party access to salary information is the only judicially recognized exception for confidential personnel matters concerning an individual public employee for purposes of the Public Records Act. (See, *Int'l Federation of Professional & Technical Engineers v. Superior Court (Contra Costa Newspapers, Inc.)* (2007) 42 Cal.4th 319.) Although these matters appear to be outside the scope of the expanded performance audit, SEDC has provided records to Macias Consulting from which the firm may evaluate the soundness of personnel practices and the adequacy and appropriateness of personnel procedures.

Sincerely,

Artie Owen
Chairman, SEDC Board of Directors

c: Denise Callahan, Macias Consulting Group

4393 Imperial Avenue • Suite 200 • San Diego, California 92113

APPENDIX 4: Kroll Documents

City of San Diego

Redevelopment Agency (SEDC) – Asset Acquisition

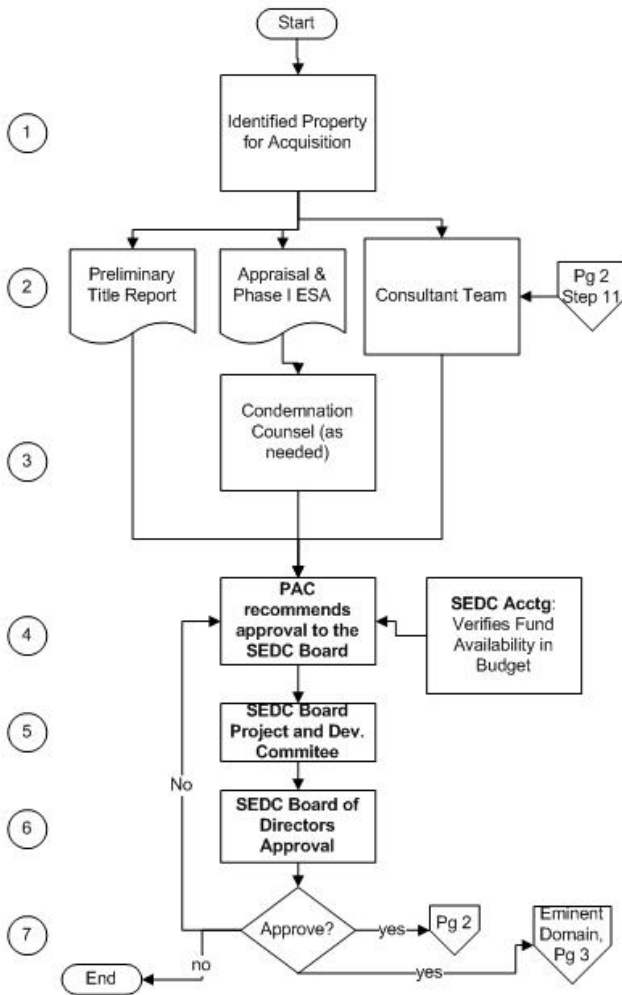
Sec I, page 1

06/05/07

Kroll Item 83

Source: SEDC

Process Flow



Process Narrative

The Southeastern Economic Development Corporation (SEDC) follows a similar process as the Redevelopment Division (RD) of the City, and Centre City Development Corporation (CCDC) for asset acquisitions.

Site Acquisition opportunities are made known to SEDC through either the property owner or a developer. A Project Manager (PM) of SEDC will implement the process for acquisition of properties. A preliminary title report will be ordered. A certified professional appraiser is selected to perform an appraisal. An environmental firm is selected to perform a Phase I Environmental Site Assessment (ESA). Soil testing is performed if required as a result of the Phase I ESA report to determine any environmental issues related to the property (earthquake faults, contamination, etc.).

A consultant acquisition team is formed. The consultant team may consist of:

- Relocation consultant
- Environmental firm for Phase I report
- Legal team for environmental issues
- Geotechnical firm
- Legal counsel (eminent domain, as needed)
- City Real Estate Assets Department
- Real Estate Appraisal Firm
- Special Agency Counsel

At present, SEDC has never exercised the power of eminent domain. In the event that the eminent domain will be needed in the future, SEDC will take the issue to the condemnation counsel.

At present a Project Area Committee (PAC) exists only in the Central Imperial Redevelopment Project Area. If the property is located within Central Imperial Project Area, the PAC will review the proposed acquisition. The PAC consists of residents, business and property owners and cultural organizations within the redevelopment project area. The PAC meetings are open to the public. The SEDC accounting department confirms that funds are available within the budget. In certain instances the acquisition is part of the development agreement which includes a loan from the proposed developer.

The SEDC Board of Directors Project and Development Committee consists of at least three board members. The Committee may review the asset acquisition package and recommends that a purchase move forward. The SEDC Board of Directors Project and Development Committee meetings are held in a public forum.

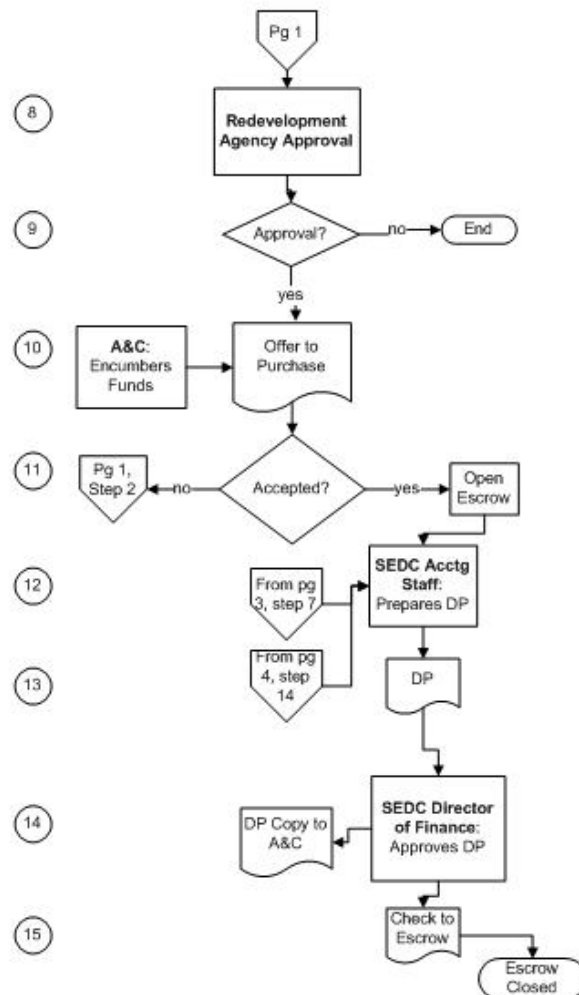
The SEDC Board of Directors review the asset acquisition package and either recommends authorizing for a purchase or does not provide recommendations for authorization to purchase. The Board of Directors meetings are held in a public forum.

Significant Control Activities

Significant Control Activities

Process Flow

Process Narrative



Before an offer to purchase is made, the proposed acquisition and related documents (purchase and sale agreement, Phase I ESA, title report, etc.) are forwarded to the Redevelopment Agency for approval.

The Auditor & Comptroller's (A&C) office encumbers the funds in an amount equal to the offer.

If the offer is accepted, the escrow is opened. If the offer is not accepted, then discussion of the deal is returned to the Acquisition Consultants Team to determine if the offer should be increased, if the deal is dead or if eminent domain should be pursued. The process for committee, board and agency approval will be restarted.

If escrow is opened, the SEDC accountant prepares a request for Direct Payment (DP) that will be forwarded to the A&C Office at the City of San Diego.

The SEDC Director of Finance reviews and approves the request for DP and associated account coding. The DP is forwarded to the City Auditor & Comptroller Office. The check is generated, and returned to SEDC Accountant who will forward it to escrow, and escrow is closed.

City of San Diego

Redevelopment Agency (SEDC) – Asset Acquisition

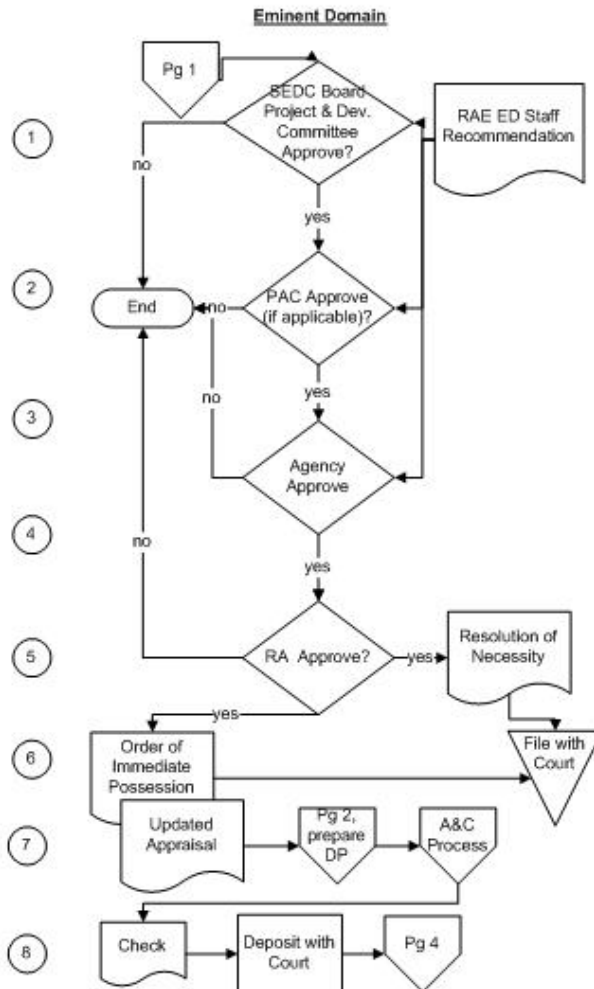
Sec I, page 3

06/05/07

Kroll Item 83

Source: SEDC

Process Flow



Process Narrative

SEDC has not exercised the power of eminent domain and has no immediate plan to do so. In the event of the need to use eminent domain becomes necessary a process similar to the Agency and CCDC process will be developed in accordance with California Redevelopment Law.

Significant Control Activities

City of San Diego

Redevelopment Agency (SEDC) – Asset Acquisition

Sec I, page 4

06/05/07

Kroll Item 83

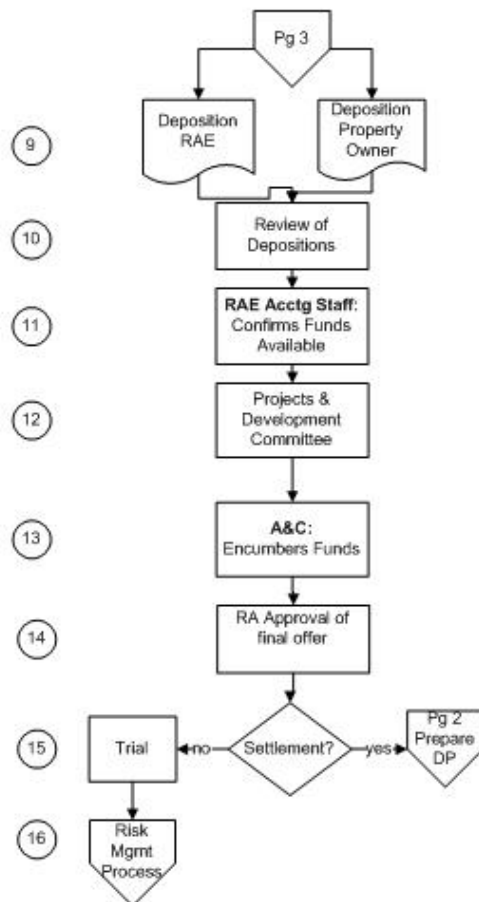
Source: SEDC

Process Flow

Process Narrative

Significant Control Activities

Final Offer and Demand Process



SEDC has not exercised the power of eminent domain and has no immediate plan to do so. In the event of the need to use eminent domain becomes necessary a process similar to the Agency and CCDC process will be developed in accordance with California Redevelopment Law.

City of San Diego

Redevelopment Agency (SEDC) – Asset Disposition

Sec II, page 1

06/05/07

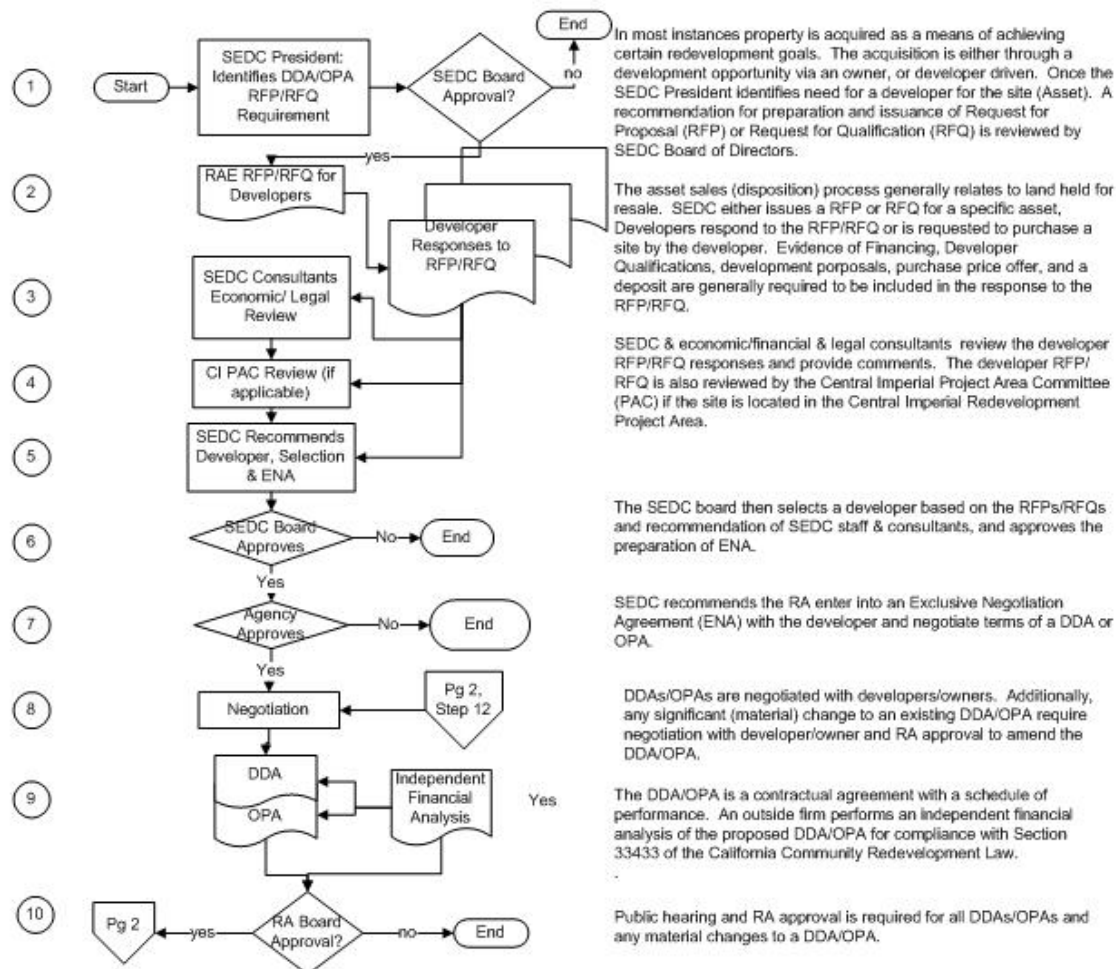
Kroll Item 83

Source: SEDC

Process Flow

Process Narrative

Significant Control Activities



City of San Diego

Redevelopment Agency (SEDC) – Asset Disposition

Sec II, page 2

06/05/07

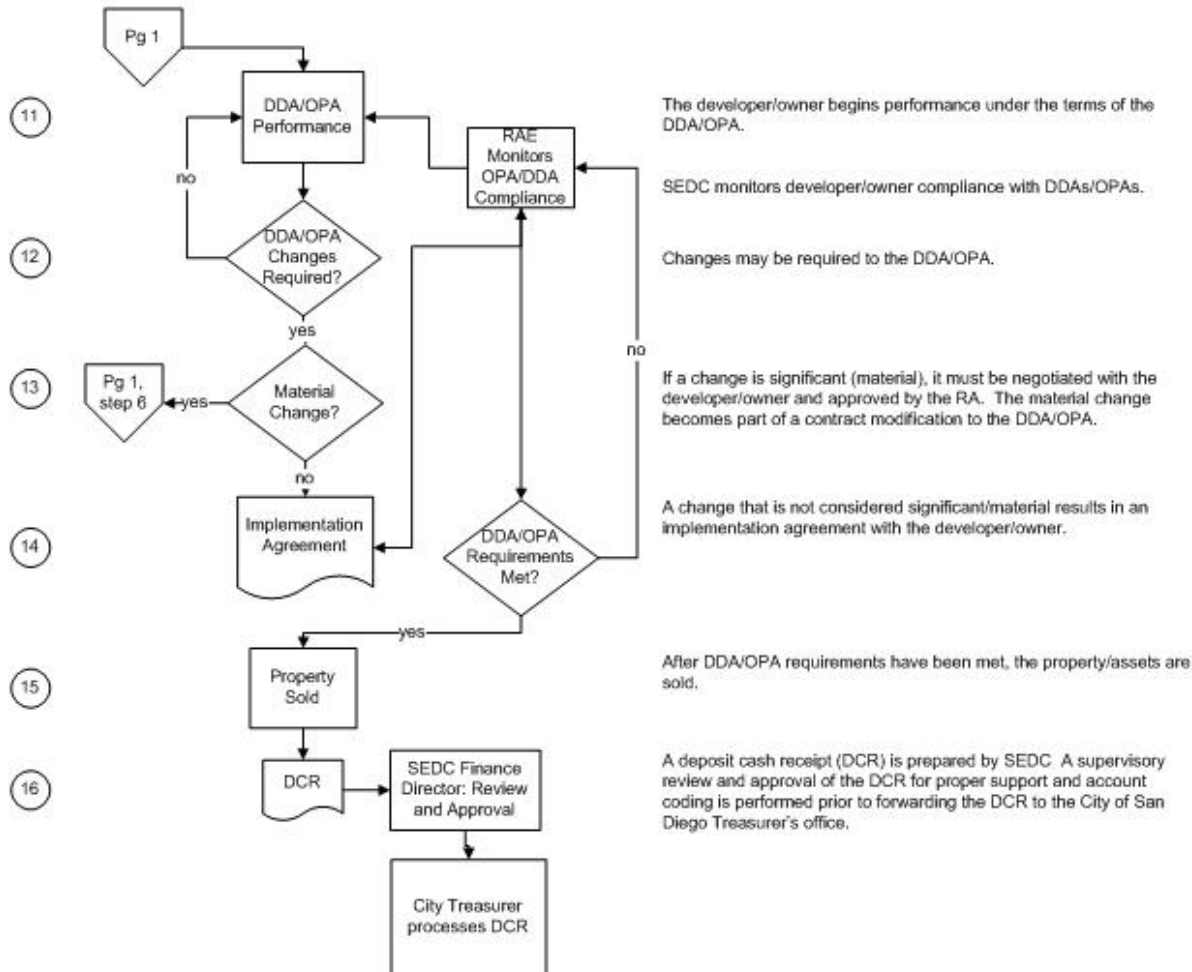
Kroll Item 83

Source: SEDC

Process Flow

Process Narrative

Significant Control Activities





Southeastern
Economic
Development
Corporation

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September 5, 2008

Via E-Mail and Hand Delivery

Mr. Eduardo Luna
City Auditor
Office of the City Auditor
101 Second Avenue, Suite 1400
San Diego, CA 92101

Dear Mr. Luna

Re: Response to Draft SEDC Performance Audit - Dated August 28, 2008

This letter is in response to the Preliminary Draft of the Southeastern Economic Development Corporation (SEDC) Performance Audit of Operations (Audit) prepared by Macias Consulting Group and dated August 28, 2008.

The failure of this document to include information that SEDC staff has provided, coupled with the apparent 180 degree change in position from the original (and previous) audits prepared by Macias Consulting Group and its affiliates creates an impression that this "expanded" audit was created primarily to satisfy those who commissioned the report, and is not a fair and impartial analysis of SEDC's performance.

While not intended to be all encompassing, with reference to specific concerns my comments include the following:

SECTION 1: SEDC HAS WEAKNESSES IN INTERNAL CONTROLS

The issue of additional compensation was discussed in a memorandum sent to Macias Consulting Group September 2, 2008. (See Attachment No. 1)

SEDC's Budget Process Can Benefit from Greater Transparency

City Requirements for SEDC's Budget Presentation Could Be Strengthened (Page 16 & 17)

The Audit states that there is not a great level of detail on specific expenditures and compensation information and goes on to say that the Board received a one page hand-out showing key types of revenues and expenditures. As a point of clarification, the one page report distributed to the Board of Directors during its meeting was prepared to provide additional detail for SEDC's expenses incurred during the proposed Fiscal Year.

In addition, all Board members were provided specific responses to the specific questions asked during the meeting and were invited to review the extensive back-up data that was utilized to prepare the budget. (See Attachment No. 2) At least one Board member did review this back-up data made available to the entire Board.

Detail Examination of SEDC Expenditures Shows Problems (Pages 21-24)

The Audit cites examples of “problem” expenditures. These references are vague and often omit a reference to supporting documentation. Take for example the discussions on expenditures related to SEDC’s 25th Anniversary. In this particular instance, the expenditure is referenced as “an event”. Section 6 of SEDC’s Special Events Policy states the following:

Inherent in the Corporation’s mission statement is the responsibility to reverse the effects of many years of neglect which have resulted in physical and economical blight being visited upon the residents and business owners of the southeastern community of San Diego. To that end, the Corporation will solely, or in conjunction with other interested parties propose, plan and produce special events for the following purposes which include but are not limited to: attracting new businesses to the area; acknowledging significant accomplishments by the community and/or the Corporation; encouraging participation in the redevelopment process and commemorating significant steps in the redevelopment process. The conception, planning and production of these events will be the responsibility of the President of the Corporation.

Any funds identified for Special Events shall be governed by the available fund approved by the Board of Directors for Special Events.

SEDC’s 25th Anniversary expenditures were approved as required in the FY 06/07 budget in the line item for Special Events. SEDC held two community celebrations.

In addition, SEDC produced marketing material which included: (1) Production and distribution of monthly post cards depicting the SEDC redevelopment activities/areas; (2) A 25th Anniversary Book documenting the corporation’s history of accomplishments - and are not classified as Special Events but were funded through the Marketing, Advertising, Postage Categories which are the appropriate line items.

The Audit notations for “questionable” expenditures were not explained and were often simply noted as a “conflict of interest”. Take for example SEDC’s office lease with Pacific Development Partners (PDP). The Audit identifies the office lease as a conflict of interest simply because it is a lease between the Developer and the Corporation. What it does not explain is that SEDC’s corporate lease was approved by the SEDC Board of Directors three years after the original Disposition and Development Agreement (DDA) was negotiated and approved and the lease is a market rate lease.

The current lease with PDP in an office building is located in the Central Imperial Redevelopment Project Area where SEDC's presence continues to be of great assistance in convincing potential businesses that their investment into the southeastern community is a good business decision despite the antiquated image of the community held by many not familiar with the tremendous redevelopment of the area.

Historically, the only office space available to those seeking an office within southeastern San Diego has been space developed as part of a specific redevelopment project. Until the early 90's, the office space in southeastern San Diego was limited to a few medical buildings or converted industrial space. It has been SEDC's strategy to assist the redevelopment of specific areas with its presence hence the corporation had previously executed two leases in the Gateway Center East Business Park (Mount Hope) with the development entities developing in the business park. This practice is similar to the leases for the Downtown Police Headquarters, Barrio Logan and City Heights Police Station which were built by local developers and leased by the city.

Compensation Practices substantially benefit SEDC Employees (Page 24)

As noted previously in the 2007 Redevelopment Review prepared by Keyser Marston Associates, SEDC has achieved significant accomplishments while employing the smallest staff and fewest management positions when compared to the other redevelopment divisions. It is particularly challenging to obtain and retain qualified staff to work in the southeastern area of San Diego (particularly management level positions), and the compensation and benefits staff received over the years covered by the Audit was within the reasonable parameters, discretion, and authority as set forth in the SEDC Operating Agreement, Bylaws, and other applicable contracts, policies and procedures. This compensation including variable compensation over and above base salary remained below market based upon an independent compensation study prepared for SEDC in July 2007.

Moreover, the compensation that the SEDC sought to pay its staff, be it through base salary or other incentive and retention benefits, was disclosed and authorized by the City. Specifics related to additional compensation have been addressed under separate cover in the letter provided to Macias and previously noted as Attachment No. 1.

Other Controls within SEDC were not Generally Effective (Page 40)

Some Record Keeping Controls are not Adequate (Page 44)

The Audit notes record keeping problems and references a document that has been altered. The document in question was a Personnel Action that noted the President's Auto Allowance. The Director of Finance corrected the document, initialed the change and re-issued a revised document which was subsequently re-executed with the approval of the Board Chairman. There was **no** concealment. If that had been the case, SEDC would not have attached the original document with the final executed copy. (See Attachment No. 3) This is yet another example of how the Audit misstated the facts by omitting

information in an attempt to reach a foregone conclusion. The Audit also implies that these personnel records are easily accessible. All Personnel and/or confidential documents are contained in locked file cabinets in an office which can also be locked.

SECTION II: SEDC REDEVELOPMENT ACTIVITIES COULD BE STRENGTHENED IN SOME AREAS

The Audit indicated that the Redevelopment Plans are simply a reflection of existing land uses. SEDC notes that adopted Redevelopment Plans must be consistent with the corresponding Community Plan and zoning. Since SEDC was intricately involved in the 1986 update of the Southeastern San Diego Community Plan we were able to recommend the general land use designations that were necessary to implement activities in existing and future Redevelopment Project Areas.

Subsequent amendments have been and will continue to be made to the plan as necessary to implement the various redevelopment plans.

Links between Operational Goals in the Five-Year Implementation Plan and Redevelopment Plans Need Further Clarification (Page 47)

The Implementation Plans include the stated redevelopment goals for each adopted project area but do not include the land use map contained in the redevelopment plans. If a map were included it would clearly display the correlation between a specific goal of the Redevelopment Plan and the implementing activity. Take for instance, the goal of developing mixed-use projects (Commercial/Residential Development). Currently, this is a land use that is not designated within the Southeastern San Diego Community Plan or the Southeastern San Diego Planned District Ordinance and consequently cannot be built. SEDC has initiated an amendment process known as the 5th Amendment to the Central Imperial Redevelopment Plan which will amend all necessary documents allowing this type of development to be built.

It should be noted that most of the future proposed projects in the various project areas are proposed as mixed-use in conformance with the City of Villages and would therefore require an amendment.

SEDC Should Continue to Improve Operational Goals Contained in Annual Work Plans and should be Measurable and Have Specific Timeframes (Page 48-50)

While project management techniques can always be improved, it should be noted that approximately 90% of the proposed projects occurring during the review period have been completed in the timeframes noted in the respective Schedules of Performance and the system of managed projects has ultimately yielded the desired results. SEDC's project management tools are sound. In addition to the 30/60/90 Work Plans and the Project Status Report, the measurable time frames are also contained in the following documents:

- Specific Development, Loan or Sales Agreements – Schedule of Performance (See Attachment No. 4)
- Project specific timelines established for planning documents

Opportunities Exist to Improve Internal Acquisition Procedures (Page 68)

The Audit notes that an RFP was not issued to obtain a developer for the project proposed. This is correct. The project began as part of the Owner Participation Agreement (OPA) process for the development of affordable housing. Once the developer requested additional assistance in assembling the land necessary, SEDC made a decision to become the property owner which allowed SEDC (on behalf of the Agency) the opportunity to retain the asset. Ultimately a Request for Proposal was distributed but is not always required.

SEDC Should Make its Consultant Selection Process More Transparent (Page 71-74)

The process for consultant selection is outlined in the SEDC Policies and Procedures. In those instances of hiring an individual or firm considered a "Sole Source" SEDC is governed by Section 22.3212(e) and Section 22.3037 of the City of San Diego Municipal Code which requires specific findings prior to the issuance of a Sole Source Contract. Attachment No. 5 is a copy of the Memorandum to the city for the Consultant referenced in the report. It should be noted that subsequently SEDC distributed an RFP for the subject consulting contract.

Finally, all contracts that are funded through Project Direct Costs require the approval of the Executive Director or the Agency/City Council depending on the monetary amount of the contract. With this additional review being required, approximately 95% of all contracts and/or Letter Agreements are reviewed and approved by the appropriate city department.

Accomplishment Report and Work Plans were Insufficient to Allow Assessment of Progress (Page 49)

Although the Audit states that staff did not provide staff evaluations thus implying it was deliberately withheld the information, SEDC was advised of its obligation to uphold its employee's privacy rights and other state and federal laws.

Conclusion

There is always room for improvement with respect to the operations and procedures at SEDC, and by this response I do not mean to suggest that certain recommendations made in the Audit would not be helpful. Rather, they are welcomed. But simply because SEDC as an organization has room for improvement does not mean that the organization has not acted within the letter and the spirit of its Bylaws and Operating Agreement with the City. To the contrary, the Audit makes clear that SEDC has, despite its small staff, been able to "make notable accomplishments in increasing tax increment, employment, and bond issuances" for one of the most neglected areas of our City.

These comments are not intended to address each and every area in which I believe that the Audit presents an unfair and unwarranted picture of SEDC and its past experiences. But in the limited amount of

Mr. Eduardo Luna
September 5, 2008
Page 6 of 6

time provided to respond to a document that was over a year in the making, I hope that this will at least raise for those willing to listen the possibility that the Audit is hardly an impartial and balanced view. In that regard, I appreciate the opportunity to respond to the Performance Audit.

Sincerely,

A handwritten signature in black ink, reading "Carolyn Y. Smith". The signature is fluid and cursive, with the first name "Carolyn" being more prominent than the last name "Smith".

Carolyn Y. Smith
President

CYS:kk

Attachment No. 1 – Denise Callahan Letter Dated September 2, 2008

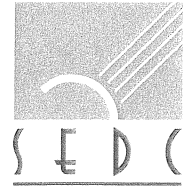
Attachment No. 2 – Estimated New Revenue and Expenditures FY 2008-2009

Attachment No. 3 – Personnel Action Form for Carolyn Y. Smith, President

Attachment No. 4 – Sample Schedule of Performance

Attachment No. 5 – Example of Sole Source Memorandum

c: Regina A. Petty, Corporate Counsel



Southeastern
Economic
Development
Corporation

T 619.527.7345

F 619.262.9845

www.sedcinc.com

September 2, 2008

Via E-Mail

Ms. Denise Callahan
Macias Consulting Group
3000 S Street, Suite 300
Sacramento, CA 95816

Dear Ms. Callahan:

Re: Response to "Draft" Copy of SEDC Performance Audit

As you know, I received a copy of the draft SEDC Performance Audit (the "Draft Audit") created by Macias Consulting on the afternoon of August 28, 2008. You have requested that I provide a response regarding the "factual or technical" accuracy of that draft report by Tuesday, September 2, 2008. Due to the shortened time frame within which you have provided me to submit a response, the Labor Day holiday, and the pending litigation that has been instituted against me by the San Diego City Attorney, I am unable to respond fully to all of the factual and technical inaccuracies contained within the Draft Audit. My decision not to address each and every inaccuracy contained in the Draft Audit should not be interpreted as an agreement with or acquiescence to the facts, assumptions, implications or conclusions contained within that document. Indeed, there are many things within the Draft Audit that I am confident are incorrect.

I do wish, however, to address one of the more glaring and factually baseless assertions in the Draft Audit, namely, that the SEDC engaged in any type of "fraudulent compensation" practices or that any compensation activities "rose to the level of fraud." This extremely serious assertion is contradicted by the objective facts which the Draft Audit simply ignores.

The Draft Audit asserts that the budget presentation practices allowed executive management at SEDC to hide "the types and amounts of supplemental income" provided to SEDC staff. This assertion is premised on the identification of salaries for each SEDC position in terms of salary ranges, and then the presentation of a higher subtotal, which is identified as "SubTotal [sic] Positions and Salaries." Yet the Draft Audit disregards the fact that the specific "types and amounts of supplemental income" was expressly set forth in the budget that was submitted to, and approved by, the City of San Diego.

For example, attached to this response is the "Position & Salary Ranges" spreadsheet for FY 2007-2008, which was contained within the budget materials submitted to the City, on the page just before the spreadsheet that mirrors Table 5.0 of the Draft Audit. This spreadsheet both highlights and separately identifies the amounts and types of supplemental compensation requested for distribution to SEDC employees for that fiscal year, over and above the base salary. This included separate, line item identification of payments in lieu of accrued time off; separation payments; cost of living adjustments; and

Ms. Denise Callahan
September 2, 2008
Page 2 of 2

merit increases, in the total identified amount for that projected year. These types and amounts of supplemental compensation are in addition to the additional compensation that the City also approved for "Overtime/Temporary/Bonus/Misc." pay to SEDC staff.

Not only was this information contained in the budgetary information formally submitted to the City; it was also specifically identified to Jay Goldstone and Mary Lewis in a separate email from Dante Dayacap, dated July 25, 2007, a copy of which I have also attached for your information. It is my understanding and belief that this type of separately identified information appeared in each of the annual budgetary submissions to the City, including the most recent submission for FY 2008-09. For example, I also attach a copy of the spreadsheet the SEDC submitted just last year, which again includes the identification of allowances for payments in lieu of vacation/sick leave; cost of living adjustments; merit/longevity/incentive pay; and separation payments, as well as a separate line item for overtime/temp/bonus/Misc.

In other words, there was no omission with respect to the types or amounts of supplemental income requested by the SEDC or approved by the City, contrary to the assertions made in the Draft Report. I had previously pointed out this detailed break down in my prior meetings with Macias Consulting, and thus I can only conclude that this information is being intentionally omitted from the Draft Report. Regardless of the reasons behind that decision, the claim that information regarding the nature and amount of supplemental income was omitted or suppressed is objectively false.

I appreciate the opportunity to respond and I will provide a written response on behalf of the corporation to Eduardo Luna of the City of San Diego on or before September 5, 2008.

Sincerely,



Carolyn Y. Smith
President

CYS:kk
Attachments

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
FY 2007-08
POSITIONS & SALARY RANGES

CORPORATION STAFF POSITION	FY 2007	FY 2008	CURRENT*		PROPOSED			
President	1.0	1.0	\$130,000	to	\$160,000	\$145,000	to	\$180,000
Director of Finance	1.0	1.0	75,000	to	95,000	95,000	to	120,000
Mgr of Projects/Development**	1.0	1.0	75,000	to	95,000	75,000	to	100,000
Community Relations Manager	1.0	1.0	75,000	to	95,000	73,000	to	85,000
Senior Planner	1.0	1.0		n/a		60,000	to	80,000
Senior Accountant	1.0	1.0	55,000	to	71,000	60,000	to	80,000
Projects Coordinator	1.0	2.0	49,000	to	60,000	49,000	to	68,000
Executive Assistant	1.0	1.0	42,000	to	57,000	47,000	to	68,000
Staff Accountant ***	1.0	1.0	38,000	to	48,000	45,000	to	58,000
Administrative Support Coordinator	1.0	1.0	35,000	to	45,000	40,000	to	55,000
Assistant Community Development Coordinator	1.0	1.0	30,000	to	40,000	35,000	to	45,000
Receptionist	1.0	1.0	26,000	to	32,000	30,000	to	40,000
Communications Coordinator	0.5	0.5	32,000	to	42,000	20,000	to	30,000
Messenger Clerk (half-time)	0.5	1.0		n/a		18,000	to	28,000
			662,000		840,000	792,000		1,037,000
Subtotal Positions & Salaries	13.0	14.5	\$940,000		\$1,193,000			
Overtime/Temporary/Bonus/Misc			94,000		114,000			
Total Positions & Salaries	13.0	14.5	\$1,034,000		\$1,307,000			
			FY 07		FY 08			
Existing Positions (Base Salary)			834,000 (1)		870,000 (1)			
Additional/Annualize Positions			-		132,600 (2)			
Sub Total Salary Base			834,000		1,002,600			
Add Allowance for payments in lieu of vacation/sick leave, merit & cost of living adjustment			106,000		190,400 (3)			
Total			<u>940,000</u>		<u>1,193,000</u>			

(1) Please note that the budgeted Positions & base salaries for FY 07 & FY 08 are within the Salary Ranges & 4% increase

(2) Funding for the Manager of Projects and Development and have increased clerk messenger to full-time

(3) Increase in number of employees & their years of service entitle employees to additional pay in lieu pursuant SEDC Employee Policy

(*) These salary ranges have not changed in four years.

(**) This position was not funded in FY06-07 but fully funded in FY07-08

(***) Title change only from Accounting Technician

From: Dante Dayacap
Sent: Wednesday, July 25, 2007 10:01 AM
To: Jay Goldstone; mlewis@sandiego.gov
Cc: Carolyn Y. Smith; Chota Oum
Subject: FW:

Good morning Jay and Mary. Attached is the analysis of SEDC's approved FY08 salary schedule. Please let me know if you have any questions.

Dante

This electronic transmission contains information from the Southeastern Economic Development Corporation and may be confidential or protected by the work product doctrine. If you are not the intended recipient, be aware that any disclosure, copying, distribution or use of the content of this message is prohibited. If you have received this communication in error, please notify us immediately by reply e-mail and delete the original message.

From: Chota Oum
Sent: Wednesday, July 25, 2007 9:56 AM
To: Dante Dayacap
Subject:

Here you are!!!

Chota

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
Schedule of Salary Budget FY 2007/2008

	FY 06/07	FY 07/08
Base Salary - 4% increase from FY 07	\$ 834,000	\$ 867,360 (1)
Vacant Positions to be filled (use maximum range in fy 08):		
Assistant Project Coordinator (increase to maximum range)		
Clerk Messenger from part time to full-time		28,000
Mgr of Projects/Develop. (new position, use maximum range)		100,000
Total - Additional/Annualize Positions (Vacant Position to be filled in FY 08)	-	128,000
Sub Total Salary Base	\$ 834,000	\$ 995,360
Allowance for payments in lieu of vacation/sick leave, merit & cost of living adjustment:		
Payment In Lieu	46,000	64,500 (2)
Accrued Vacation Contingency (Separation payments)	-	45,000 (3)
4% Cost of Living	34,000	40,100 (4)
Merit Increases / Longevity	26,000	48,040 (5)
Sub Total	\$ 106,000	\$ 197,640
Total	<u>\$ 940,000</u>	<u>\$ 1,193,000</u>

Explanations:

- (1) Base Salary - 4% Increase from the prior year budget base salary of \$834,000.
- (2) Payment in Lieu - Proposed Base Rate x Number of Eligible Hours.
- (3) Accrued Vacation Contingency (Separation) - We did not provide for this line item in the previous year (FY 06/07). In FY 07/08 we budgeted this line item based upon 70% of the average accrued vacation (\$63,951) of two previous fiscal years. It should be noted that SEDC's goal is to budget 100% of the accrued vacation as revenues would allow.
- (4) Cost of Living - 4% of Base Salary and distributed as lump sum. Please note that this does not change the base salary.
- (5) Merit Increases / Longevity - Provided to the employees as a lump sum amount based on their responsibilities and length of employment. For example, a Project Coordinator who has been with the corporation for 5 years or more may receive a lump sum of approximately \$2,000; while a receptionist, who has been with the corporation for only 2 years or less may receive approximately \$500. Please note that this was established to recognize the value of an employee who has chosen to remain with the Corporation; and thus, as his/her value to the corporation increases, the lump sum amount may increase.

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
FY 2008-09
POSITIONS & SALARY RANGES

CORPORATION STAFF POSITION	FY 2008	FY 2009	CURRENT		PROPOSED			
President	1.0	1.0	\$145,000	to	\$180,000	\$ 149,400	to	\$185,400
Director of Finance	1.0	1.0	95,000	to	120,000	97,900	to	123,600
Mgr of Projects/Development	1.0	1.0	75,000	to	100,000		to	
Community Relations Manager	1.0	1.0	73,000	to	85,000	75,200	to	87,600
Senior Project Manager **	1.0	1.0	60,000	to	80,000	61,800	to	82,400
Senior Accountant	1.0	1.0	60,000	to	80,000	61,800	to	82,400
Project Manager **	2.0	3.0	49,000	to	68,000	50,500	to	70,000
Executive Assistant	1.0	1.0	47,000	to	68,000	48,500	to	70,000
Staff Accountant	1.0	1.0	45,000	to	58,000	46,400	to	59,800
Administrative Support Coordinator	1.0	1.0	40,000	to	55,000	41,200	to	56,700
Administrative Secretary	-	1.0	-	to	-	38,000	to	50,000
Assistant Community Development Coordinator	1.0	1.0	35,000	to	45,000	36,100	to	46,400
Receptionist	1.0	1.0	30,000	to	40,000	30,900	to	41,200
Assistant Project Manager	-	1.0	-	to	-	30,000	to	40,000
Research Coordinator	-	1.0	-	to	-	30,000	to	40,000
Messenger Clerk	1.0	-	18,000	to	28,000	-	to	-
Communications Coordinator	0.5	-	20,000	to	30,000	-	to	-
Subtotal Positions & Base Salaries	14.5	17.0	\$995,360					\$1,053,000
Allowance for Payments in Lieu of Vacation/Sick Leave, Cost of Living, & Merit / Longevity/Incentive Pay			\$152,640					\$164,100
Accrued Vacation Contingency (Separation payments)			\$45,000					\$0
Subtotal Positions & Salaries, Allowance for Other Pay, & Accrued Vacation Contingency			\$1,193,000					\$1,217,100
Overtime/Temporary/Bonus/Misc			114,000					118,600
Total Positions & Salaries			\$1,307,000					\$1,335,700

- *** Proposed Salary Range increased by 3% from FY 2008
- *** Senior Project Manager position was a reclassification position from Senior Planner
- *** Project Manager position was a reclassification position from Project Coordinator
- *** Accrued Vacation Contingency (Separation payments) was reclassified to non-personnel contingency expenditure per the Comptroller's instruction

SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION
Estimated New Revenue and Expenditures
FY 2008 - 2009

Description	New \$\$\$\$ FY 08/09	FY 09 Project Costs Funded by Contin'g Appr	Budget Requests FY 08/09	Total Central Imperial	Total GWCW	Total Mount Hope	Total Southcrest
Revenue:							
Projected Gross Tax Increment FY 08/09	6,656,075		6,656,075	2,306,229	330,302	1,695,715	2,323,828
Adjustments:			0	-	-	-	-
FY 06-07 Actual TI Receipts Adjustments (Net)	749,200		749,200	201,500	2,700	47,000	498,000
Estimated County Fees FY 08/09	(40,000)		(40,000)	(20,000)	(6,000)	(7,000)	(7,000)
Adjusted Tax Increment Revenues	7,365,275	-	7,365,275	2,487,729	327,002	1,735,715	2,814,828
Redevelopment Revenue (80%)	5,892,618		5,892,618	1,990,183	262,000	1,388,572	2,251,862
Housing Set-Aside (20%)	1,472,657		1,472,657	497,546	65,000	347,143	562,966
Subtotal (Available Tax Increment Revenue)	7,365,275	-	7,365,275	2,487,729	327,000	1,735,715	2,814,828
Other Revenues:			0	-	-	-	-
City Reloan - Central Imperial	1,215,000		1,215,000	815,000	400,000	-	-
Interest from Developer Deposit/Shared & Other Investments		50,000	50,000	50,000	-	-	-
Interest from Bond Investment		186,000	186,000	106,000	-	-	80,000
Transfer From / (To) Other Project		1,260,671	1,260,671	415,671	-	-	845,000
Prior Years Revenues / Adjustments		9,791,632	9,791,632	2,804,600	-	136,862	6,850,170
Total Revenues	8,580,275	11,288,303	19,868,578	6,679,000	727,000	1,872,577	10,589,998
Expenses:							
Tax Sharing & Debt Service:			0	-	-	-	-
Tax-sharing Agreement (SB 211)	370,940		370,940	-	-	66,000	304,940
Tax-sharing Agreement - Pre (AB 1290)	258,000		258,000	88,000	-	-	170,000
Tax-sharing Agreement - Post (AB 1290)	240,000		240,000	240,000	-	-	-
Payback CI-3 Tax Increment Revenue	300,000		300,000	300,000	-	-	-
City Loan Repayment in SC to be reloaned to CI & GWCW	1,215,000		1,215,000	-	-	-	1,215,000
Debt Services - 1995 Bonds Installment Payment	235,952		235,952	-	145,451	90,501	-
Debt Services - 2002 Bonds Installment Payment	152,750		152,750	-	-	152,750	-
Debt Services - 2007(A) Bonds Installment Payment	1,408,670		1,408,670	497,088	-	333,338	578,244
Debt Services - 2007(B) Bonds Installment Payment	1,163,853		1,163,853	497,893	-	-	665,960
Total Tax Sharing & Debt Service	5,345,165	-	5,345,165	1,622,981	145,451	642,589	2,934,144
SEDC Administration Costs	2,716,900		2,716,900	846,646	44,943	567,021	1,258,290
Total SEDC Admin	2,716,900	-	2,716,900	846,646	44,943	567,021	1,258,290
Gov't Svcs - GGS:			0	-	-	-	-
Atty, Aud, Agcy & Trsr	435,400		435,400	134,820	21,170	104,050	175,360
Insurance & Maintenance	82,810	13,390	96,200	28,820	40	29,100	38,240
Total Gov't Svcs	518,210	13,390	531,600	163,640	21,210	133,150	213,600
Consultants:				-	-	-	-
City Administration - Code Compliance		132,000	132,000	7,000	5,000	50,000	70,000
Other Administration:				-	-	-	-
Homebuyer Education Program		28,093	28,093	-	-	10,000	18,093
Holiday Bridge Lights		7,100	7,100	-	-	7,100	-
Community & Development (Entrepreneur Academy)		33,563	33,563	-	-	-	33,563
Legal and Finance		422,000	422,000	320,000	25,000	10,000	67,000
Plans and Surveys		1,330,476	1,330,476	311,500	471,476	88,000	459,500
Property Management		369,088	369,088	127,417	13,920	94,750	133,000
Project Improvements - Public Art Consultant		126,270	126,270	61,201	-	6,000	59,069
Total Consultant Costs	-	2,448,590	2,448,590	827,118	515,396	265,850	840,225
Construction Costs:				-	-	-	-
City Administration:				-	-	-	-
City-CI Public Improv. Review/Permit		40,000	40,000	40,000	-	-	-
City-Dev Review Costs /SEDC Permits		20,000	20,000	20,000	-	-	-
City-Mt.Hope Public Improv. Review/Permit		10,000	10,000	-	-	10,000	-
City-SC Public Improv. Review/Permit		20,000	20,000	-	-	-	20,000
Architects (Water Conservation)		4,500	4,500	-	-	2,750	1,750
Construction Management		110,000	110,000	110,000	-	-	-
Engineering		225,000	225,000	100,000	-	50,000	75,000
Former Valencia Library Building Rehabilitation for Re-use		100,000	100,000	100,000	-	-	-
Imperial Ave. Street/Trolley Enhancements -Construction Contractor		1,300,000	1,300,000	1,300,000	-	-	-
Landscape Contractor (Water Conservation)		55,000	55,000	4,000	-	4,000	47,000
Landscape Design Consultant		193,000	193,000	71,700	-	2,100	119,200
Other Consulting Costs (Public Improvement)		425,250	425,250	-	-	175,117	250,133
Public Art Artist/Installation (Public Improvement)		100,000	100,000	40,000	-	20,000	40,000
SC Public Improvements Construction		1,000,000	1,000,000	-	-	-	1,000,000
Total Constructions Costs	-	3,602,750	3,602,750	1,785,700	-	263,967	1,553,083
Assistance Loan Programs:				-	-	-	-
C-I First Time Homebuyer Revolving Loan (Housing Commission)		150,000	150,000	150,000	-	-	-
C-I Residential Rehabilitation Revolving Loan (Housing Commission)		200,000	200,000	200,000	-	-	-
SC First Time Homebuyer Revolving Loan (Housing Commission)		220,000	220,000	-	-	-	220,000
SC Residential Rehabilitation Revolving Loan (Housing Commission)		100,000	100,000	-	-	-	100,000
Total Assistance Loan Programs	-	670,000	670,000	350,000	-	-	320,000
Site Acquisitions:				-	-	-	-
Misc. Site Acquisitions costs (Phase II, II, Soils, HazMat, etc.)		30,000	30,000	30,000	-	-	-
Misc. Site Acquisitions & Demolition costs		800,000	800,000	800,000	-	-	-
Southcrest -43rd St. & Newton Ave		1,200,000	1,200,000	-	-	-	1,200,000
Total Site Acquisitions Costs	-	2,030,000	2,030,000	830,000	-	-	1,200,000
Transfers Appropriations From / (To) Other Project		2,523,573	2,523,573	252,915	-	-	2,270,658
Total Transfers	-	2,523,573	2,523,573	252,915	-	-	2,270,658
Total Expenses	8,580,275	11,288,303	19,868,578	6,679,000	727,000	1,872,577	10,590,000

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FAX NO.

P. 03

#1485 P.002/002



Southeastern
 Economic
 Development
 Corporation

T 619.527.7345
 F 619.263.6912

PERSONNEL ACTION FORM

EMPLOYEE:

Carolyn Y. Smith

POSITION:

President

PERSONNEL ACTION REQUESTED:

Salary Adjustment

FROM:

\$135,000.00

TO:

\$139,000.00

EFFECTIVE DATE:

April 15, 2003*

Signature:

David R. Poole
 David R. Poole
 Chair

Signature:

Carolyn Y. Smith
 Carolyn Y. Smith
 President

Date:

April 9, 2003

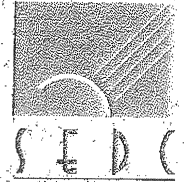
Date:

April 9, 2003

*Retroactive to July 1, 2002.

**Effective May 1, 2002. Ms. Smith's auto allowance is increased to \$400.00 per month.

450.000000 4/15/03



Southeastern
Economic
Development
Corporation

PERSONNEL ACTION FORM

T 619.527.7345
F 619.263.6912

EMPLOYEE: Carolyn Y. Smith
POSITION: President
PERSONNEL ACTION REQUESTED: Salary Adjustment
FROM: \$135,000.00
TO: \$139,000.00
EFFECTIVE DATE: April 15, 2003*

Signature: _____

David R. Poole
Chair

Signature: _____

Carolyn Y. Smith
President

Date: _____

April 9, 2003

Date: _____

April 9, 2003

*Retroactive to July 1, 2002

**Effective May 1, 2002, Ms. Smith's auto allowance is increased to \$450.00 per month.

ATTACHMENT NO. 4
SCHEDULE OF PERFORMANCE

I. GENERAL PROVISIONS

- | | |
|--|---|
| 1. <u>Execution of RLA by Agency.</u> Agency shall hold a public meeting on the RLA, and, subject to making the requisite findings, authorize execution and execute and deliver RLA to MAAC. | Within 45 days after submission of executed RLA by MAAC. |
| 2. <u>Submission – General Contractor and/or Subcontractors, Architect, Landscape Architect and Civil Engineer.</u> MAAC shall submit to Agency for approval the name and qualifications of its General Contractor and/or subcontractors, Architect, Landscape Architect and Civil Engineer. | Not later than execution and submission of RLA by MAAC to Agency. |
| 3. <u>Approval – General Contractor, Architect, Landscape Architect and Civil Engineer.</u> Agency shall approve or disapprove the General Contractor, Architect, Landscape Architect and Civil Engineer. | Concurrently with execution of RLA by Agency. |
| 4. <u>Submission - Basic Concept/Schematic Drawings.</u> MAAC shall submit to Agency for approval any drawings, plans and/or other related documents for the Rehabilitation. | Not later than execution and submission of RLA by MAAC to Agency. |
| 5. <u>Approval - Basic Concept/Schematic Drawings.</u> Agency shall approve or disapprove the drawings, plans and/or related documents for Rehabilitation. | Concurrently with execution of RLA by Agency. |

6. Submission – Confirmation of total Rehabilitation Costs final Project Budget. MAAC shall submit to Agency for approval the Rehabilitation Costs as described in paragraph a. of the Method of Financing and Scope of Rehabilitation, Attachment No. 5, as well as the final Project Budget as described in paragraph b. of the Method of Financing and Scope of Rehabilitation, Attachment No. 5.

Not later than execution and submission of RLA by MAAC to Agency.

7. Approval - Confirmation of total Rehabilitation Costs final Project Budget as of date of execution of RLA. Agency shall approve or disapprove the Rehabilitation Costs as described in paragraph a. of the Method of Financing and Scope of Rehabilitation, Attachment No. 5, as well as the final Project Budget as described in paragraph b. of the Method of Financing and Scope of Rehabilitation, Attachment No. 5

Within thirty (30) days following submission by MAAC to the Agency.

II. FINANCING OBLIGATIONS

1. Evidence of Financing. MAAC shall submit to the Agency evidence of financing described in Paragraph d. of the Method of Financing.

Not later than thirty (30) days prior to the scheduled Close of Escrow.

2. Approval of Financing. The Agency shall approve or disapprove the evidence of financing.

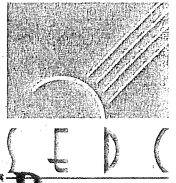
Within fifteen (15) days after Agency receives complete submission of evidence of financing.

III. CLOSING AND REHABILITATION

1. Submission - Final Construction Drawings and Specifications. MAAC shall submit to Agency for review and approval (if appropriate) the Final Construction Drawings and Specifications.

Not later than thirty (30) days prior to the scheduled Close of Escrow.

2. Approval – Final Construction Drawings and Specifications. Agency shall approve or disapprove the Final Construction Drawings and Specifications. Within fifteen (15) days after submittal.
3. Escrow Closing Date. MAAC shall satisfy all conditions precedent to Closing as set forth in paragraph e. of the Method of Financing. Not later than thirty (60) days after Agency execution of the RLA and concurrent Close of Escrow.
4. Commencement of Rehabilitation. MAAC shall commence Rehabilitation of Improvements. Within thirty (30) days after the Close of Escrow.
5. Temporary Relocation. MAAC to temporarily relocate or move tenants to new units to prevent interruptions in tenant's quiet enjoyment and prevent any public safety. Prior to the commencement of any Rehabilitation work.
6. Completion of Rehabilitation. MAAC shall complete all Rehabilitation of the Improvements set forth in the Scope of Rehabilitation. Within ten (10) months after Rehabilitation commencement and no later than twelve (12) months after Close of Escrow.
7. Occupancy. MAAC shall have completed the Rehabilitation and related all Improvements and make Property available for occupancy for intended tenants. Within twelve (12) months after commencement of Rehabilitation and no later than fourteen (14) months after the Close of Escrow.

**RECEIVED****AUG 23 2005**Southeastern
Economic
Development
Corporation**REDEVELOPMENT AGENCY****MEMORANDUM**

Date: August 8, 2005

To: Debra Fischle-Faulk, Assistant Executive Director

From: Carolyn Y. Smith, President *CYS*

T 619.527.7345
F 619.262.9845

Subject: Business Development & Outreach – Sole Source Agreement

In accordance with Section 22.3212 (e) and Section 22.3037 of the City of San Diego Municipal Code, the Southeastern Economic Development Corporation (SEDC) is requesting approval of the Sole Source for entering into an agreement with Collins Strategic Group, Inc., for business development and community outreach services.

On July 18, 2005, the President of SEDC approved, and transmitted for administrative concurrence, a Sole Source agreement with Collins Strategic Group, Inc. (Collins Group). The Collins Group is a specialized organization that provides narrowly targeted services tailored to business development and community outreach uniquely suited for southeastern San Diego. There are no other organizations, or individuals, with the proven expertise and skill sets of the Collins Group, therefore, making the bidding process unavailing. The specific demographics and unique nature of redevelopment and business development activities in southeastern San Diego require such a custom-fitted approach that there would be no advantage to the bidding requirements. The bidding process, under these circumstances, would prove undesirable, unproductive, impractical or impossible in terms of concluding with result remotely compatible with the scope of work required by SEDC.

In light of the singular and targeted expertise of the Collins Group, SEDC does not believe it would receive responses through the bidding process that would produce an additional advantage and is unnecessary for the selection of a qualified business development and community outreach contractor. Thus, the Sole Source agreement is justified in strict accordance with Section 22.3037.

SEDC requests approval of the Sole Source process in lieu of the normal Request for Proposal process for business development and community outreach services.

If you have any questions, please feel free to contact Ms. Kimberly King at 619-527-7345.

Approved/Accepted
Debra Fischle-Faulk, Assistant Executive Director



THE CITY OF SAN DIEGO

September 8, 2008

Mr. Eduardo Luna, City Auditor
1010 Second Avenue, Suite 1400
San Diego, CA 92101

Dear Mr. Luna:

The Office of the Mayor has reviewed the Preliminary Draft Report on the Southeastern Economic Development Corporation Performance Audit of Operations and is in agreement with the findings and recommendations. Specific responses to the recommendations are presented below.

RECOMMENDATION 1:

The City should revamp SEDC's governance structure. Options to consider include: (1) amend and update SEDC's operating agreement to include representatives of the City on the SEDC Board, limitations to the SEDC President's authority; and specific requirements for holding Board of Director meetings, budgeting practices, communication activities, project management, financial management, performance outcomes, mandating leave utilization, and defining the requirements for SEDC Board of Director training; (2) depending on the results of the anticipated CCDC study, integrate/merge SEDC under the direct control of the RDA or integrate SEDC with CCDC; or (3) have SEDC fully operate as a public agency within the City.

MANAGEMENT RESPONSE:

Agree. The Operating Agreement between SEDC and the City should be revised to include many of the changes suggested by this audit. The Mayor will make recommendations on the implementation of the findings of this audit and other changes to the Operating Agreement that may be appropriate. SEDC should continue to operate as a separate agency; however, the Board should be expanded to include direct representation from the City. The two new board members should be one representing the Mayor's office and one representing the City Council.

RECOMMENDATION 2:

The City should require in SEDC's Operating Agreement the position classification of a Chief Financial Officer that reports to the Board of Directors and fill the newly created position through competitive and open recruitment.

MANAGEMENT RESPONSE:

Partially agree. The SEDC Board should (1) review this recommendation, including the suggested reporting structure, and report its decision to the Mayor within 90 days, and (2) fill any open financial position through open and competitive recruitment with qualified financial professionals.

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RECOMMENDATION 3:

The SEDC Board should approve all salary increases to the SEDC President. Incentive pay increases should be documented in the SEDC contract with the President and directly tied to annual performance evaluations provided by the full Board of Directors.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 4:

SEDC should fill the Manager of Projects and Development as soon as possible.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 5:

SEDC should fill a Vice President position to help oversee day-to-day operations and be responsible for SEDC's adherence and compliance to internal controls.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 6:

SEDC should establish a part-time formal Human Resources Manager position to oversee SEDC's recruiting, hiring, staff development, and termination activities.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 7:

SEDC should ensure that its Board of Directors receives all the training necessary to fully perform their fiduciary responsibility of the Agency.

MANAGEMENT RESPONSE:

Agree. The City will require Board training for SEDC in good governance and in the board's execution of fiduciary responsibility in the revised operating agreement.

RECOMMENDATION 8:

SEDC should immediately develop policies and procedures for ensuring proper recordkeeping and storage that include:

- Documentation of Board member opposition to Board motions and activities and inquiries for information.
- Preparation of the Board minutes should be accomplished within specific time frames, and posted on the Agency's website.
- Tape recordings of SEDC Board minutes should be maintained in locations fully accessible by the public.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 9:

SEDC should require the reporting of quarterly expenditure reports for professional and technical services to the SEDC Board of Directors that include the types of services provided.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 10:

SEDC, in conjunction with the City's Personnel Department, should develop formal procedures for approving pay-outs of accrued leave, including the requirement of the SEDC Board of Director's approval for leave buy-outs of SEDC executive officers.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 11:

SEDC should develop policies for expenditure allowances. These policies should define the types of allowable and unallowable expenditures. These policies should be streamlined with City policies and take into consideration that the money being utilized are public funds and should not be used for non-governmental business.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

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RECOMMENDATION 12:

SEDC should formalize policies and procedures that describe the segregation of duties for the fiscal operations and authorization procedures.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 13:

SEDC should amend its merit pay policy and establish maximum amounts that can be awarded.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 14:

SEDC should ensure that all policies are approved by the SEDC Board of Directors.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 15:

SEDC should amend its consultant policy and lower the threshold that would trigger SEDC Board of Director approval for professional and technical services contracts/letters of agreement to \$10,000.

CITY RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 16:

SEDC should eliminate the authority provided to the SEDC President to implement agency policies at her discretion.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 17:

The City's Office of the Chief Financial Officer should review and approve of SEDC's newly developed fiscal policies and procedures prior to their finalization.

MANAGEMENT RESPONSE:

Agree. The City's Chief Financial Officer will review and approve newly developed fiscal policies prior to adoption by the SEDC Board. Once approved by City Management, these policies will be presented to the Audit Committee.

RECOMMENDATION 18:

SEDC should discontinue all forms of supplement income payments to SEDC staff, except for merit pay as described under current policies.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 19:

SEDC should report on a monthly basis, a financial position report to the Board of Directors. This report would show current expenditures as they relate to each budget line item. This would include a report of current financial status as compared to the budget.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 20:

The new SEDC Chief Financial Officer, in the budget presentation to the Board and supplementary submission to the City, should include a minimum of three years of budget versus actual data for revenues and expenditures, for both project budgets and corporate budgets, including variances. The budget should include detailed and precise information on base salary and other forms of compensation by employee position, and estimated overtime.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 21:

The SEDC Chief Financial Officer should include project goals and accomplishment information by project to be incorporated into the budget presentation. Having this information will allow SEDC to tie program goals and objectives to their budget.

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MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 22:

The SEDC Board of Directors should ensure that cost of living increases that are provided to SEDC employees are consistent with City cost of living increases.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 23:

SEDC should clarify and further develop its real estate acquisition policy. This should include, but not necessarily limited to, detailing when SEDC should use Request for Proposal and when it should go back to its Board of Directors or the City Redevelopment Agency Board for subsequent approval of acquisitions.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 24:

SEDC should correlate implementation plan goals with redevelopment plan goals and present the revised documents for formal Board approval.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 25:

Annual work plans should include timeframe for completion of work plan tasks.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 26:

Accomplishment reports should link specific accomplishments back to the operational goals in project area work plans. They should also discuss the remaining work left to be completed.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 27:

In accordance with best practices, SEDC should develop an agency-wide strategic plan. This process should include City and community outreach to solicit strategic planning feedback.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 28:

SEDC should ensure the agency wide strategic plan is linked to the Mayor's vision for the City.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 29:

SEDC should make its consultant selection process more transparent by: (a) documenting consultant need in the files, including a justification for selecting a sole source consultant, when such a consultant is used; and (b) In accordance with SEDC's policies and procedures, the President should disclose all consultant contracts that are entered into at the Board of Directors monthly meeting immediately following the execution of the contract.

MANAGEMENT RESPONSE:

Agree. The SEDC Board should report its decision whether to implement this recommendation to the Mayor within 90 days.

RECOMMENDATION 30:

The City should consider examining the feasibility and the extent to which supplemental compensation that was not properly authorized should be reclaimed by the City.

MANAGEMENT RESPONSE:

Agree. Pending the outcome of the final audit report, Management will meet with the District Attorney and/or City Attorney as appropriate.

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RECOMMENDATION 31:

The City should determine the full impact of 403B contributions on the City stemming from the supplemental compensation increases.

MANAGEMENT RESPONSE:

Agree. The City will discuss the potential impact supplemental compensation increases might have on 403B contributions and will take appropriate steps to correct, if necessary.

RECOMMENDATION 32:

The City's Internal Auditing function should conduct an audit within 18 months to review the status of SEDC's efforts to implement the recommendations contained in this report.

MANAGEMENT RESPONSE:

Agree. This will become part of the City Auditor's workplan.

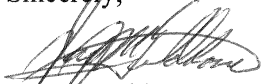
RECOMMENDATION 33:

The City should examine the appropriateness of SEDC contribution activities.

MANAGEMENT RESPONSE:

Agree. The City will require that SEDC's newly developed fiscal policies and procedures include guidelines and restrictions on the gift of public funds. In addition, the City will examine past contributions to determine if any state or local laws or regulations were violated.

Sincerely,



Jay M. Goldstone
Chief Operating Officer

Cc: Honorable Mayor Jerry Sanders
Honorable City Council President and Councilmembers
City Attorney Michael Aguirre